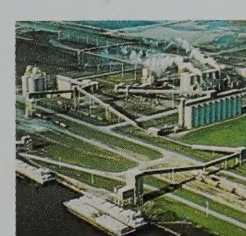
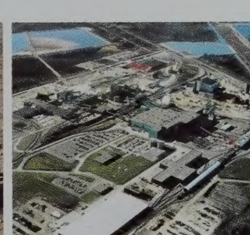
Texasgulf Annual Report 1977

Texasgulf Inc. is dedicated to finding, developing and producing natural resources essential to a higher standard of living for everyone. Its principal products include metals, chemicals for agriculture and industry, and oil and gas.

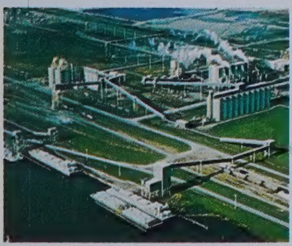




Ten Year Summary of Production (Figures are in short tons unless otherwise noted and indicate Texasgulf's share)

Product	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Sulphur (long tons)	2,165,300	2,311,000	2,151,000	2,494,000	2,639,000	2,868,000	2,839,100	2,955,500	3,043,700	3,030,000
Oil & Condensates (barrels)	232,000	229,600	259,200	248,900	248,700	244,000	226,000	277,000	304,000	289,100
Gas (million cubic feet)	18,686	14,905	18,487	20,754	17,786	17,861	14,836	11,646	10,657	10,000
Potash	614,000	598,600	529,800	616,200	513,800	518,400	266,900	430,800	440,100	410,000
Sulphuric Acid	1,622,300	1,687,600	1,533,300	1,560,000	1,137,000	1,035,000	744,000	670,000	686,000	697,000
Phosphoric Acid (as 54% P_2O_5)	926,000	950,800	884,200	869,400	605,700	594,300	477,500	435,100	439,700	443,600
Dry Phosphate Fertilizers	484,200	517,700	450,600	461,500	345,500	405,700	281,000	298,800	365,600	409,000
Copper Concentrates	243,500	234,700	238,400	241,200	206,900	182,200	182,100	172,000	184,000	205,400
Zinc Concentrates	436,300	474,200	504,700	580,400	589,900	616,700	590,800	582,800	582,100	562,500
Lead Concentrates	31,100	38,600	31,600	36,200	36,900	42,100	61,900	70,400	93,900	96,000
Silver (troy ounces in concentrates)	8,924,000	10,415,000	9,235,000	10,553,000	10,691,000	13,039,000	12,720,000	13,023,200	13,822,000	13,968,000
Cadmium Metal (lbs. in concentrates)	2,172,000	2,360,000	2,555,000	3,151,000	2,960,000	3,034,000	3,214,000	3,201,000	3,156,000	3,049,000
Zinc Metal (from Tg Zinc Plant)	91,100	107,700	93,000	107,900	107,100	60,100				
Iron ore sinter fines	999,900	885,600	728,000	738,400	460,000	156,200				
Iron ore pellets	440,000	442,700	395,100	429,300	387,000	34,500				
Gypsum (sales)	96,800	119,000	130,000	129,000	115,000	58,000				
Tin (lbs. in concentrates)	372,300	410,300	628,400	486,200						
Hydrofluosilicic Acid (as 100%)	3,800	2,100	100							
Dicalcium Phosphate	50,600	38,900	16,100							
Limestone	72,500	74,300	60,700							
Soda Ash	406,700	37,000								

Texasgulf Inc.
Annual Report 1977


PHOSPHATE


SULPHUR


SODA ASH


METALS


OIL AND GAS


MINERALS EXPLORATION


INTERNATIONAL

Annual Meeting. The annual meeting of shareowners will be held in the Houston Club Building, Houston, Texas on Thursday, April 27, 1978. Notice of the meeting, proxy statement and proxy will be sent to shareowners on or about March 27, 1978.

Texasgulf's Form 10-K Report to the Securities and Exchange Commission for 1977 is available upon request to the Corporate Secretary, Texasgulf Inc., High Ridge Park, Stamford, Conn. 06904.
Telephone: (203) 358-5000

Texasgulf's earnings were the lowest in 5 years although all divisions maintained profitable operations. **3**

New phosphate mining system improves ore recovery and eliminates mining problems which limited production in 1977. **6**

Potash production was higher in 1977. Potash Corporation of Saskatchewan to become joint owner of Allan mine. **8**

Soda ash production controlled to match sales in first full year of operation. Wyoming plant wins design award. **10**

Sulphur shipments increased. Production limited to 70% of capacity to reduce inventories. **10**

Schedules for construction of copper smelter and expansion of Kidd Creek mine production stretched out pending improving demand for zinc and copper. **14**

Revenue from oil and gas increased. Exploration and development active. **20**

Minerals exploration emphasizes energy resources in U.S. and Canada. **24**

International Division completing Panama copper deposit feasibility study. Development of Australian iron ore awaits improved steel demand. **26**

Financial Review and Statements. **29**

Comparative Highlights

	1977	1976	1975
Sales	**$ 482,647,000**	$ 480,540,000	$ 444,645,000
Net income*	**$ 46,285,000**	$ 60,844,000	$ 93,712,000
Net income per common share*	**$ 1.21**	$ 1.98	$ 3.06
Dividends paid per share			
Common	**$ 1.20**	$ 1.20	$ 1.20
Preferred	**$ 3.00**	—	—
Working capital	**$ 249,823,000**	$ 247,918,000	$ 180,435,000
Ratio of current assets to current liabilities	**2.9 to 1**	3.8 to 1	2.6 to 1
Total assets*	**$1,477,879,000**	$1,315,430,000	$1,100,736,000
Long term debt, less current maturities	**$ 366,592,000**	$ 266,176,000	$ 227,913,000
Stockholders' equity*	**$ 752,143,000**	$ 750,171,000	$ 576,782,000
Number of employees as of Dec. 31	**5,390**	5,340	4,874
Number of shareowners of record Dec. 31	**59,901**	62,289	64,534
Average number of common shares outstanding	**30,808,924**	30,735,287	30,615,846
Book value per share of common stock as of Dec. 31	**$ 19.52**	$ 19.50	$ 18.80

*Restated. See note 1, page 36.

Division	Sales (Amounts In Millions)		Income* (Amounts In Millions)	
	1977	1976	1977	1976
Agricultural Chemicals	$147.2	$148.7	$17.3	$21.9
Industrial Chemicals	142.6	117.8	25.5	24.1
Metals — Operations	199.0	230.5	62.5	104.0
Exploration expense			5.8	8.2
Division income			56.7	95.8
Oil and Gas — Operations	22.5	13.8	13.5	7.1
Exploration expense			11.3	13.8
Division income			2.2	(6.7)
Other, including elimination of interdivision sales	(28.7)	(30.3)	(10.4)	(13.1)
	$482.6	$480.5	$91.3	$122.0

*Division Income excludes interest expense and income taxes. Minerals exploration expense is included in determining Metals Income and oil and gas exploration expense is included in determining Oil and Gas Income. Exploration expenses were previously excluded from the determination of Division Income.

To Our Shareowners:

1977 was not a good year for most companies in the natural resources industry. It was the worst year since the great depression of the 1930's for companies in zinc and copper. Although Texasgulf's earnings were the lowest in 5 years, the company was still able to maintain profitable operations in all of its divisions because of the high grade of its reserves, its modern and efficient plants and its capable, experienced and dedicated people.

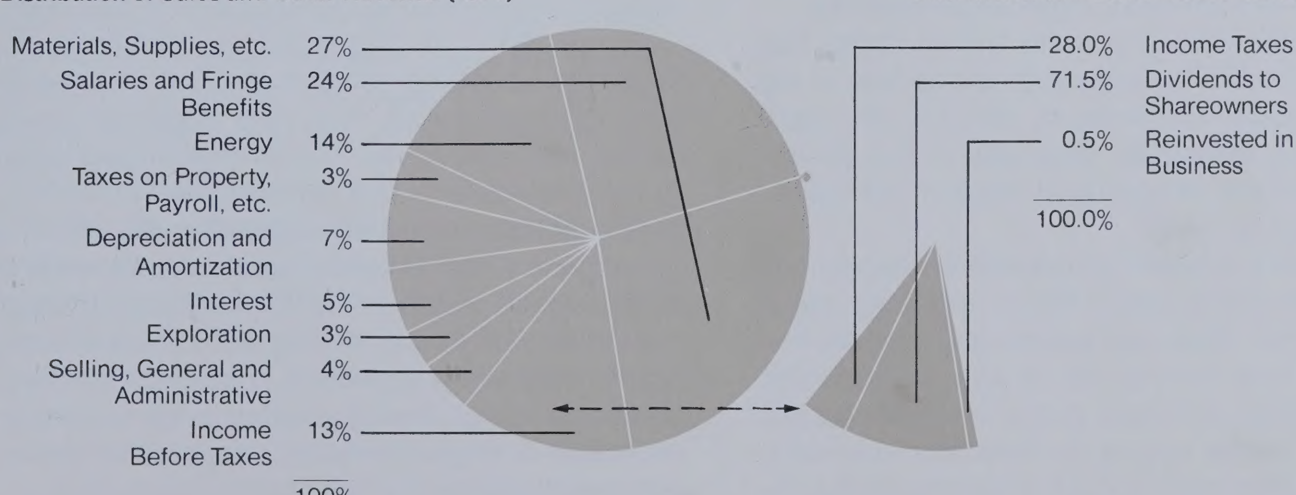
The problems of 1977 were mainly the result of low prices for zinc and copper and low volumes of sales of zinc, some phosphate fertilizers and soda ash. For Tg it was particularly unfortunate that production of phosphates was limited by a temporary mining problem and that entry into the soda ash market was slower and more difficult than anticipated. The production of Tg phosphate, with the introduction of a new mining system, is now at the highest level it has ever been, and the rate of soda ash sales is nearly double that of a year ago. Although the zinc and copper markets are still severely depressed, they too will in time recover.

Charles F. Fogarty   Richard D. Mollison

Texasgulf continues to be confident that its strong and diversified position in natural resources will re-

Distribution of Sales and Other Revenue (1977)

Distribution of Income Before Taxes



Offshore drilling for oil and gas on several tracts in the Gulf of Mexico produced successful results in 1977. Helicopter lands on a typical drilling platform offshore Louisiana.

sult in long-term growth in sales and profitability.

In 1977 the recovery in the United States was largely limited to the consumer goods area of the economy. Basic industries in the U.S. and many other world economies, especially in Europe and Japan, were still struggling to adjust to the quintupling of energy costs.

The current problem of unbalanced supply and demand for many basic natural resources began in 1973 when there was widespread concern that the world was running out of natural resources. The predicted shortages of raw materials caused excessive hedge buying by manufacturers. Many producers expanded production facilities so that the apparent growing demand could be more than met.

In late 1973 the Organization of Petroleum Exporting Countries initiated the first of several price increases for oil. The costs of energy quadrupled, then quintupled. This started the world on its worst recession in four decades. Most producers of natural resources didn't expect the recession to last very long and, instead of curtailing production, as the laws of supply and demand would normally dictate, they kept on producing at the same or even higher rates. With expanded production facilities producing at full capacity, a very large inventory, especially of copper and zinc, accumulated which now overhangs the market, depressing prices.

In 1977, many companies in the United States and Canada cut production in an effort to match supply to demand, but many Third World countries continued to produce at capacity or even increase production, in order to maintain full employment and earn hard currency to pay for the increased costs of oil and other imported goods.

In the cases of zinc and copper there appears to be no quick and easy solution to the problem of restoring the balance between supply and demand unless more producers take steps to reduce production. In the long term, increased emphasis on new product and market development is needed to further improve the rate of growth in demand for these commodities.

During 1977, Texasgulf's inventories of zinc and sulphur reached uncomfortable levels, and production rates were reduced for both. Zinc production was reduced by shutting the plant down for the month of August and operating at about 65% of capacity for the balance of the year. The Frasch sulphur mines were reduced to a 70% operating rate beginning in June. The reduced rates, while conserving cash, increased unit costs of production and reduced earnings. Production of soda ash was limited by sales and was well below the rated capacity.

In 1977 zinc sales in the United States, Tg's principal market, were adversely affected by large imports of low priced European metal and by a reduction of the use of zinc, especially in the automobile industry with the trend to smaller and lighter cars.

In 1978, with production facilities in good order, fertilizer sales volume should be higher and prices improved over those of 1977. Sulphur sales volume and prices should be above those of 1977. Soda ash sales should continue to increase with the price firm for the year. Oil and gas revenues increased in 1977 and should improve substantially again in 1978.

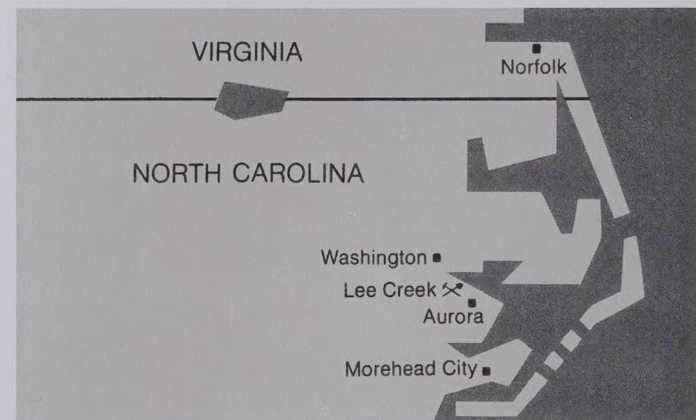
In the long term, Texasgulf will be able to benefit from the restoration of realistic pricing which will occur when the demand for products now in oversupply begins to exceed production capacities. Texasgulf is an efficient and low cost producer. Its large, high quality, strategically located reserves will enable the company to return again to the higher profit margins of former years.

The completion of several major projects will also have a positive impact on future earnings. Since 1974, Texasgulf has completed several major facilities, including the soda ash mine and plant in Wyoming, two additional acid trains at the North Carolina phosphate fertilizer complex and the development of the No. 1 Kidd Creek underground mine. In 1978, Texasgulf will also complete the fourth circuit in the Kidd Creek concentrator and the shaft for the No. 2 underground mine.

The continued growth in consumption of metals, fertilizers and such essential raw materials as sulphur and soda ash means that the day will inevitably come when demand will exceed the ceilings of available productive capacity. The need for capital to expand production will be even greater then than it is today. It will be very difficult if not impossible to raise the huge amounts of investment capital required without substantial increases in prices and higher profits.

Agricultural Chemicals Division

In 1977 the Agricultural Chemicals Division was responsible for phosphate and potash operations and marketing, including the phosphate mine and fertilizer complex in North Carolina and potash mines in Utah and Saskatchewan.



Sales of the Agricultural Chemicals Division in 1977 were slightly lower than in 1976 because of reduced production of phosphate fertilizers. Division income was $17.3 million, compared with $21.9 million a year earlier.

Costs of production increased at the Lee Creek, North Carolina phosphate complex because of mining difficulties encountered in the first half of the year. Production of fertilizer materials was limited by the availability of phosphate rock.

The problem was completely resolved when a new mining method became fully operational in July. Mining rates and recoveries reached record levels in the second half of the year, and costs have returned to normal.

The new mining system resulted in higher rates of production and recovery of ore. Under the new system the upper 40 feet of overburden is removed by suction dredges and pumped to mined-out areas as backfill for land reclamation. The draglines then move into the new mining block. The combination dredge-dragline technique has improved recovery of ore from about 50% to over 95%.

Forty additional 100-ton railway tank cars scheduled for delivery in early 1978 will permit increased shipments of superphosphoric acid, including shipments to Tg's liquid fertilizer plant at Mt. Olive, North Carolina, and its limestone and feed ingredients plant at Weeping Water, Nebraska. Both of these facilities are continuing to increase their production and sales. Weeping Water began sales of feed grade potash in addition to its dicalcium and monocalcium phosphate products.

Texasgulf's Mt. Olive plant produces a liquid 10-34-0 fertilizer using superphosphoric acid from Lee Creek and a pipe reactor process developed by Tg and the Tennessee Valley Authority.

In 1977 Lee Creek also increased production and sales of by-product hydrofluosilicic acid which is used for water treatment in major eastern cities.

Lee Creek's new mining technique will permit ex-

Operating Statistics
(All dollar amounts in millions)

	1977	1976	% Change
Sales	$147.2	$148.7	− 1.0
Division income	$ 17.3	$ 21.9	−21.0
Capital expenditures	$ 8.1	$ 8.9	− 9.0
Assets	$315.8	$313.0	+ .9

Production (short tons)

	1977	1976	% Change
Phosphate rock	2,590,600	2,151,500	+20.4
Phosphoric acid as 54% P_2O_5	926,000	950,800	− 2.6
Dry phosphate fertilizers	484,200	517,700	− 6.5
Feed phosphates	60,100	49,300	+21.9
Limestone products	72,500	74,300	− 2.4
Potash	614,000	598,600	+ 2.6
Hydrofluosilicic acid (100%)	3,800	2,100	+81.0

Sales
(All dollar amounts in millions)

	1977	1976	% Change
Phosphate rock	$ 11.1	$ 3.8	+192.1
Phosphoric acid	54.0	57.0	− 5.3
Dry phosphate fertilizers	41.7	48.2	− 13.5
Feed phosphates	10.2	8.0	+ 27.5
Limestone products	1.0	1.0	—
Potash	26.5	29.3	− 9.6
Other	2.7	1.4	+ 92.9
	$147.2	$148.7	

Texasgulf's large phosphate ore reserves and fertilizer chemical complex at Lee Creek, North Carolina are strategically located to serve world markets by both rail and water. Barge shipments are made by intracoastal waterway to a deepwater terminal at Morehead City.

Phosphate rock production at Lee Creek increased substantially in the second half of 1977. Phosphate rock is used at Lee Creek to make dry fertilizer materials and phosphoric acid. Additional rock is available for external sales.

pansion of concentrator and calciner capacity from 3.5 million to 5 million tons of phosphate rock per year. When market conditions improve, sufficient rock will be available to increase acid production from the present 680,000 tons of P_2O_5 per year to 1 million tons. Rock will also be available for increased dry fertilizer production and in addition provide for export sales of 500,000 tons per year.

At Lee Creek Texasgulf owns or leases about 35,000 acres containing approximately 2.2 billion tons of phosphate sands averaging about 13% P_2O_5, of which 1.2 billion tons are proven recoverable reserves.

Potash production at Allan Potash Mines, Saskatchewan, increased substantially in 1977. Texasgulf has a 40% interest in the Allan Potash Mines near Saskatoon. In 1977 negotiations were held with the government-owned Potash Corporation of Saskatchewan (PCS) concerning the acquisition of Allan under the Provincial Potash Development Act of 1976 which authorized PCS to buy or expropriate some or all of the potash mines in the province.

Early in January, 1978 Texasgulf's partners in Allan (U.S. Borax 40% and Swift Canadian Co. Ltd. 20%) agreed to accept a PCS offer of $85.5 million (Canadian) for their 60% share. Texasgulf believes that the PCS offer is insufficient and has declined the offer to sell its 40% share for $56.7 million (Canadian).

The Allan mine is one of the largest in Saskatchewan with a rated capacity of 1.5 million tons a year of potassium chloride. Reserves at Allan are at least 1.93 billion tons of ore averaging 24% K_2O.

Potash production at the Cane Creek Mine near Moab, Utah was lower but as planned.

Sales in the phosphate industry began 1977 with good volumes and firm prices. Low grain prices, unfavorable weather and proposed 1978 acreage limitations resulted in a fall fertilizer demand much

lower than expected. With the low volumes, prices also weakened in the latter part of the year but remained slightly above late 1976 levels.

As shown in the accompanying chart the average price of phosphoric acid was slightly higher in 1977 than 1976 but only enough to offset the year-to-year impact of inflation. Measured in constant dollars, the price was unchanged and was only $5 above the levels of 10 years ago.

The 10-year chart of the average price of coarse potash f.o.b. Canada shows a general upward trend in potash prices but two-thirds of the increase in price was due to inflation.

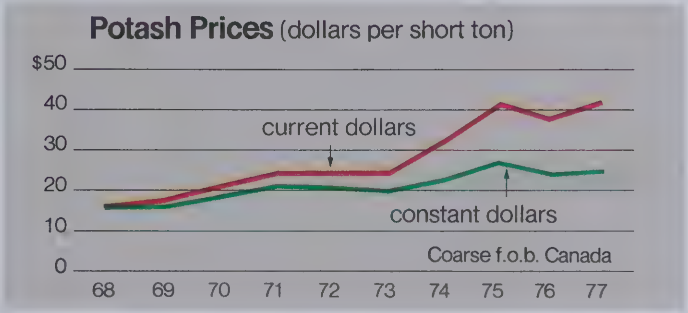
The current relatively low prices of fertilizer materials are expected to result in increased demand by farmers if weather conditions are favorable this year.

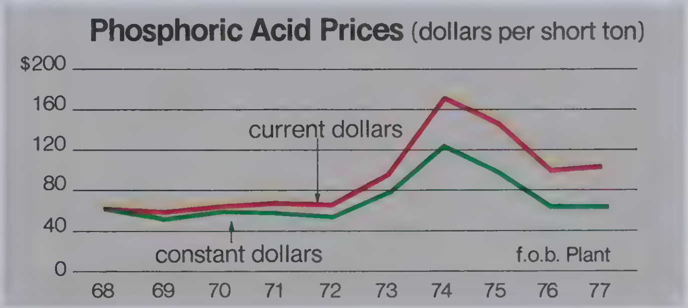
World consumption of phosphate fertilizer mate-

Areas which have been mined at Lee Creek will be reclaimed and used to grow crops or raise cattle. Experiments have been conducted to test growth of various crops on the land to be reclaimed. Shown here is a small pilot test on kenaf, a plant grown in the East Indies to produce paper-making fibers.

rials increased from 24 million tons in 1976 to 25.5 million tons in 1977. World production in 1977 totaled 26.5 million tons, compared with 25 million tons in 1976.

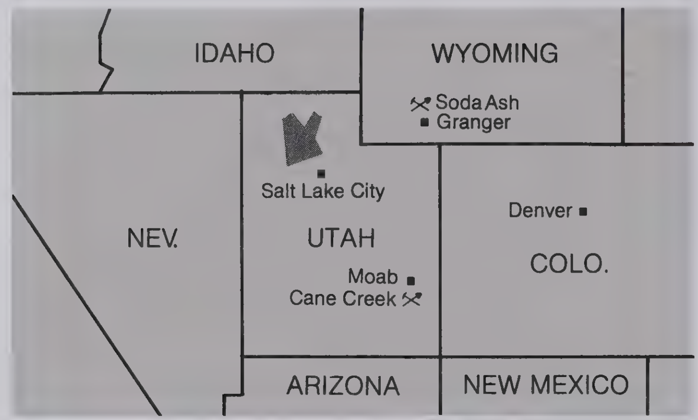
World consumption of potash increased to 23 million tons in 1977 from 21 million tons in 1976. World production of potash was 25 million tons in 1977, compared with 23.6 million tons in 1976.





Industrial Chemicals Division

In 1977 the Industrial Chemicals Division was responsible for production and sales of soda ash and sulphur, including soda ash in Wyoming, and sulphur in the United States, Mexico, and Canada.



Operating Statistics (All dollar amounts in millions)	1977	1976	% Change
Sales	$142.6	$117.8	+21.1
Division income	$ 25.5	$ 24.1	+ 5.8
Capital expenditures	$ 17.5	$ 68.8	−74.6
Assets	$407.4	$364.1	+11.9
Production			
Sulphur (long tons)	2,165,300	2,311,000	− 6.3
Soda ash (short tons)	406,700	37,000	—
Sales (All dollar amounts in millions)			
Sulphur	$118.7	$117.5	+ 1.0
Soda ash	23.9	.3	—
	$142.6	$117.8	

In the first full year of operations at Texasgulf's trona mine and soda ash plant in southwestern Wyoming production was controlled to match sales. During the first two months of 1977 severe winter weather and gas shortages limited the requirements for soda ash by major customers. A strike in the glass container industry further reduced demand during the third quarter.

For much of 1977 the soda ash plant operated at about 50% of its capacity of 1 million tons of product per year although the plant has demonstrated its ability to run at full capacity.

Indications of substantial sales improvement in 1978 are now evident. Natural soda ash has been in growing demand as an essential raw material in the glass, chemical and other industries. The availability of synthetic (Solvay) soda ash continues to decline because of high production costs and environmental control problems.

Texasgulf's is the first soda ash plant designed to use coal instead of oil or gas. Wyoming has ample coal supplies. The plant was selected by the editors of POWER magazine for their "E" award in recognition of the outstanding plant design in pollution control and environmental protection.

The price for soda ash was increased $4 per ton to $55 effective April 1, 1977. Texasgulf later announced it would maintain this price throughout 1978.

Texasgulf's trona reserves total about 175 million tons, or the equivalent of about 100 million tons of soda ash. The soda ash plant is designed to permit a doubling of capacity when market demand grows.

Texasgulf's sulphur shipments increased 6% in 1977.

Texasgulf's total sulphur production, including its 34% share of production by Compania Exploradora del Istmo (CEDI), Tg's Mexican affiliate, was 2,165,300 long tons in 1977 compared with 2,311,000 in 1976. CEDI produced 607,000 long tons.

Texasgulf's soda ash processing plant is the first in Wyoming to use coal instead of oil or natural gas. It was chosen by the editors of POWER magazine for their "E" award for excellence in plant design in pollution control and environmental protection.

During the second half of the year when Frasch sulphur production was reduced to 70% of capacity, Frasch inventories were reduced by 49,000 long tons, but total inventories for the full year increased from 3,946,700 to 4,302,000 long tons.

The operating rate of 70% of capacity will be maintained until inventories have been reduced to a satisfactory level.

World consumption of sulphur rose from 47 million long tons in 1976 to 50 million in 1977. World sulphur production increased from 51 million long tons in 1976 to 52 million in 1977. Although total world inventories were higher, large tonnages are landlocked or lack facilities for shipment.

Since Frasch sulphur mining involves heating large volumes of water, the reduced production rates in the second half conserved energy and cash, but unit costs were higher.

Energy costs for Frasch sulphur production have risen nearly 9 times since 1972, from 23 cents per mcf of gas to nearly $2 per mcf in 1977.

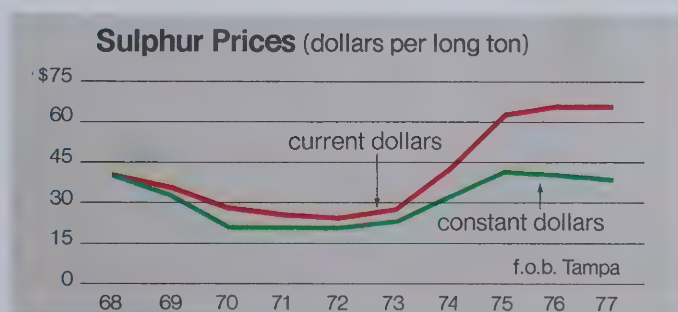
Texasgulf announced price increases for both Frasch and recovered sulphur in late 1977. The recovered sulphur price increased to $18 per long ton, f.o.b. Alberta producing points. The price of Frasch sulphur, which has been $65 per long ton f.o.b. Tampa, Florida since 1975, was increased to $68.50 effective May 1, 1978.

The increases only partially offset higher costs, including the much higher energy costs. As the accompanying 10-year chart of sulphur prices illustrates, the Tampa price for sulphur, measured in constant dollars, has declined in both of the last 2 years and is now lower than the price 10 years ago.

Industrial Chemicals Division

Sulphur from a storage vat in Beaumont, Texas is being broken down for melting and shipment. Texasgulf pioneered the technology for shipping sulphur in liquid form by rail cars, trucks, barges and tankers.

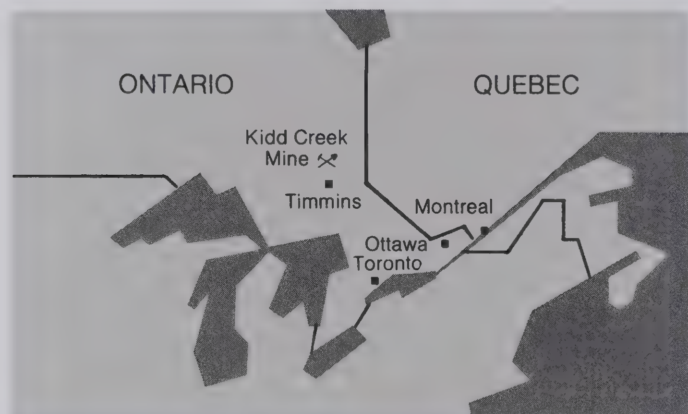
Four sulphur tankers, a network of liquid sulphur terminals, and a fleet of inland water barges and tank cars are used in delivering sulphur to both North American and export markets.



The outlook for future growth in sulphur demand is closely tied to growth in the world economy. Sulphur is the workhorse of the chemical industry. It has so many uses in industry that its growth trends closely parallel the index of industrial production. One new application which has been successfully tested and is being actively promoted uses sulphur as a substitute for some of the asphalt in road paving material. This could create a market for as much as 7 million tons per year in the United States alone according to the Sulphur Institute.

Metals Division

The Metals Division's primary responsibility is for the Kidd Creek zinc-copper-silver mine and processing facilities at Timmins, Ontario.



Operating Statistics (All dollar amounts in millions)	1977	1976	% Change
Sales	$199.0	$230.5	−13.7
Division income	$ 56.7	$ 95.8	−40.8
Capital expenditures	$106.5	$ 89.1	+19.5
Assets	$570.6	$471.6	+21.0

Production (short tons)			
Ore milled	3,636,600	3,574,000	+ 1.8
Copper concentrates	243,500	234,700	+ 3.7
Lead concentrates	31,100	38,600	−19.4
Zinc concentrates	436,300	474,200	− 8.0
Zinc metal	91,100	107,700	−15.4
Cadmium (lbs. in concs.)	2,172,000	2,360,000	− 8.0
Silver (troy oz. in concs.)	8,924,000	10,415,000	−14.3
Tin (pounds in concs.)	372,300	410,300	− 9.3

Sales (All dollar amounts in millions)			
Copper	$ 72.9	$ 79.2	− 8.0
Lead concentrates	6.5	7.8	−16.7
Zinc concentrates	33.9	42.4	−20.0
Zinc	55.3	73.5	−24.8
Cadmium	1.6	4.7	−66.0
Silver	27.4	21.9	+25.1
Tin concentrates	1.4	1.0	+40.0
	$199.0	$230.5	

Sales and income of the Metals Division were lower in 1977 as a result of declining prices for zinc and copper and reduced sales of zinc.

Because of the continuing poor world market conditions for zinc and copper and the resultant reduced cash flow, the decision was made in September, 1977 to stretch out the construction of the Kidd Creek copper smelter and refinery and the development work in the No. 2 underground mine.

Design and engineering on the smelter and refinery will be completed as scheduled in June, 1978. Construction and installation of equipment will be at a reduced pace but can be accelerated when market conditions improve.

Texasgulf has taken over construction management of the copper smelter and refinery project which is now about 30% complete.

The main buildings of the copper smelter and refinery were enclosed and heated by the end of 1977. Activities planned for 1978 include erection of the waste heat boilers and the three process furnaces, completion of the oxygen and acid plant mist precipitators and the setting of the electrolytic tanks.

The No. 2 mine shaft and the expansion of the Kidd Creek concentrator with the addition of a fourth circuit will be completed in 1978. The No. 1 underground mine, supplemented by a surface stockpile of ore, can supply ore to the fourth circuit in the expanded concentrator, but not at the full capacity rate, until the initial development work in the No. 2 underground mine is completed.

The schedules for the copper smelter and refinery and the development work in the No. 2 underground mine are flexible, and the completion dates will be determined in the light of future market conditions.

The transition from open pit to underground mining at Kidd Creek was completed on schedule in 1977.

On April 19, 1977 the last ore was blasted and hauled from the open pit. Stockpiles of about 2

Aerial view of the Kidd Creek metals operation at Timmins, Ontario. Exterior construction of the copper smelter and refinery in the upper part of the photo was completed during 1977 and other work continued on a stretched out schedule under Texasgulf management.

Headframes for the No. 1 and No. 2 underground mines are prominent features of the surface facilities at the Kidd Creek Mine. The transition from open pit to underground mining was completed in April, 1977.

million tons mined from the open pit will be used to help supply the concentrator during the next three years.

The No. 1 underground mine ran without problems through the year. The underground backfill system was put in operation, and three stopes were filled. The quality of the backfill, a mixture of crushed waste rock and cement, proved to be very satisfactory.

Underground mining was concentrated on the 800- and 1200-foot levels while development continued on the 1600-foot level. Supplies of developed, drilled and broken ore were increased to facilitate future mining.

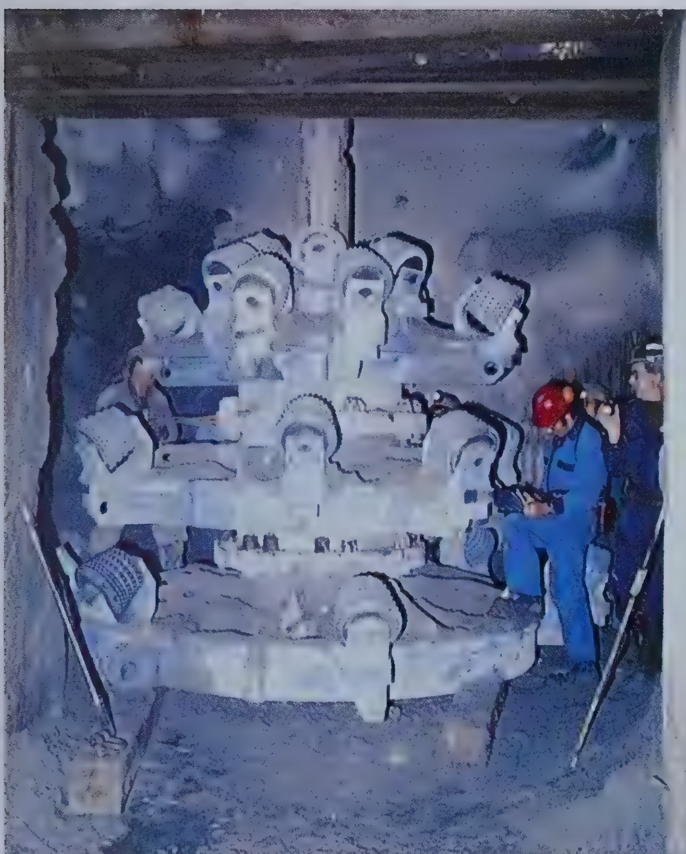
The Kidd Creek concentrator continued its regular full rate production schedule throughout 1977, with zinc and copper concentrate production somewhat higher than expected.

The zinc plant operated at 94% of design capacity for the first 7 months of 1977, was closed during August, and operated at 65% of capacity for the remainder of 1977. Plant efficiency and metal quality were excellent.

In May, the installation of mechanical stacking and strapping machines in the zinc plant was completed, eliminating a labor-intensive operation. During 1977 work was also initiated on a simple zinc stripping procedure to eliminate another labor-intensive operation. Tests were successful and full conversion to the new stripping units is planned by mid-1978.

The No. 2 underground mine shaft was bottomed at 5,105 feet on September 8, 1977. The new schedule calls for the shaft to be fully equipped, the head-

The Kidd Creek No. 1 underground mine has successfully demonstrated the efficiency of using large rotary drilled blastholes for stoping. The machine shown here is able to bore holes up to 12 feet in diameter.



frame completed and the hoists commissioned by late 1978. Some development work will also be done in the upper part of No. 2 mine, producing a limited amount of ore for processing in 1978, 1979 and 1980.

In the concentrator, the fourth circuit will be completed by July, 1978. With this circuit in operation, each of the other three circuits will undergo major maintenance one at a time with the current rate of production being maintained. In 1979 and 1980 all four circuits will be in operation. Tonnage mined will be increased more slowly than planned under the original schedule for the No. 2 mine development. The capacity of the concentrator with the fourth circuit will be about 5 million tons of ore per year.

From the start of operations in November 1966 through December 1977, the Kidd Creek Mine produced a total of 39.5 million tons of ore that averaged 1.62% copper, 0.34% lead, 9.03% zinc and 3.83 ounces of silver per ton. Ore produced in 1977 averaged 1.84% copper, 0.22% lead, 7.26% zinc and 3.03 ounces of silver per ton.

Kidd Creek ore reserves at the end of 1977 were estimated at 119 million tons of which 108.3 million tons were classified as proven and probable containing an estimated 2.84% copper, 0.18% lead, 5.03% zinc and 1.99 ounces of silver per ton.

Ore reserves above the 2600-foot level, which will be recovered from the No. 1 underground mine, were estimated at 79.3 million tons of which 78.2 million tons were classified as proven and probable containing an estimated 2.77% copper, 0.23% lead, 6.19% zinc and 2.37 ounces of silver per ton. Known ore reserves below the 2600-foot level, which will be recovered from the No. 2 underground mine, were estimated at 39.7 million tons of which 30.1 million tons were classified as proven and probable ore containing an estimated 3.01% copper, 0.06% lead, 2.02% zinc and 1.02 ounces of silver per ton.

Only limited drilling has been done below the 2800-foot level which is insufficient to establish the extent of the ore reserves. The orebody is open at depth and horizontally at many levels. With the completion of the development work in the No. 2 underground mine, more detailed and deeper exploration will be conducted.

During the year, underground exploration drilling discovered a high grade silver-zinc satellite orebody located approximately 300 feet southwest of the main orebody. Although small in size this zone is still open below the 3,000-foot level and indicates good potential for new ore zones in the mine area.

World inventories of copper and zinc reached their highest levels in history during 1976 and remained at about the same level in 1977. The inventories of

Metals Division

The No. 1 underground mine at Kidd Creek ran extremely well in 1977. Shown here is the conveyor belt for the underground backfill system which was put in operation. It permits 100% recovery of the ore.

2.2 million tons of copper and 1.3 million tons of zinc were equal to about 4 months supply.

Metal sales volumes except for silver were below those of 1976. The most serious deficit was in zinc in which sales of 83,000 tons were 16,000 tons below 1976 sales. The average price for zinc was 34¢ per pound compared with 37¢ in 1976.

Copper sales at 57,500 tons were 1,900 tons below the 1976 level. The average copper price was 63¢ per pound compared with 66¢ in 1976.

Silver sales at an average price of $4.62 per ounce were above those of 1976. Cadmium sales were down from 1976.

Sales of lead concentrates were lower as a result of lower production. Lead prices continued firm or higher.

Zinc concentrates sales were up marginally from 1976. The price received for zinc concentrates was down drastically because of the low European producer prices on which sales are based.

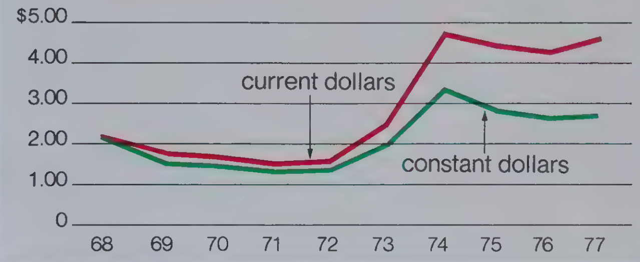
Copper sales were about even with production, but inventories increased in zinc, zinc concentrates, and cadmium. Zinc inventories decreased from a high point in mid-year after the zinc plant operating rate was reduced.

U.S. producers of copper and zinc are petitioning the government for some form of protection against imports. In view of the long history of trade between the United States and Canada, any restriction on imports of these metals from Canada would be most unfortunate. A hearing on the zinc petition is scheduled for March 21.

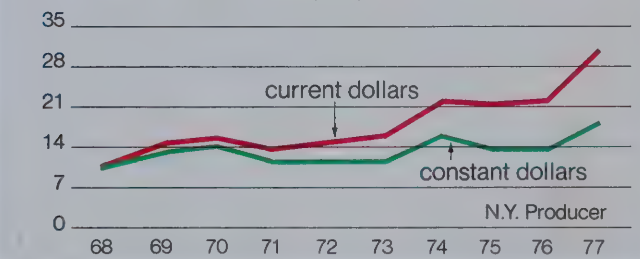
The accompanying 10-year charts of both copper and zinc prices further illustrate the impact of inflation. In constant dollars the price Texasgulf received for its copper, whether sold at the U.S. producer

First shipments of ore from the Nanisivik zinc-lead-silver mine on Baffin Island were made in 1977. It is the first commercial mine north of the Arctic Circle in North America. Texasgulf retains a 35% net profits interest in the Nanisivik mining operation.

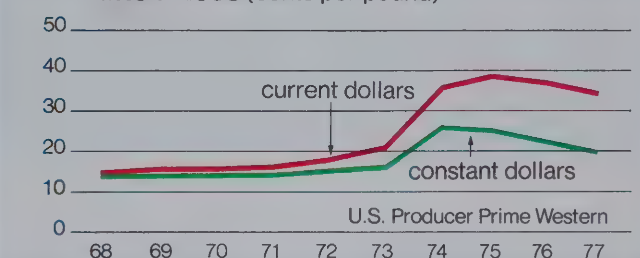
Silver Prices (dollars per ounce)



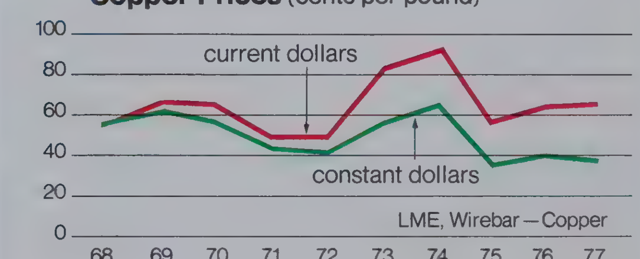
Lead Price (cents per pound)

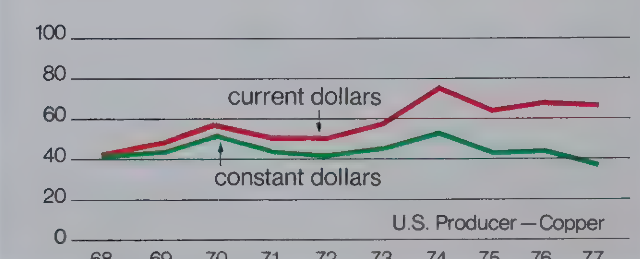


Zinc Prices (cents per pound)



Copper Prices (cents per pound)





price or the LME price, was below that received 10 years ago.

Although the zinc price in constant dollars is above that of a decade ago, the price has declined each year since 1974 and in 1977 was only 4¢ per pound over that prevailing in 1968.

The Nanisivik zinc-lead-silver mine on Baffin Island completed its first full year of operation in 1977. Mining reached satisfactory levels and the metallurgy has come up to expectations. Ore mined has been slightly lower in zinc than anticipated but higher in lead. Texasgulf retains a 35% net profits interest in the Nanisivik operation after the recovery of exploration and development expenditures and production financing.

Oil and Gas Division

The Oil and Gas Division is responsible for exploration and development and production and sales of oil and gas in North America and other parts of the world.

Texasgulf's revenue from oil and gas increased 63% in 1977. Production of gas was up, and further improvement is expected in 1978.

Revenues from oil and gas for 1977 reflect the substantial volume of new gas from West Cameron Block 480, offshore Louisiana, brought on stream in December, 1976. Sales from this property, in which Texasgulf has a 20% interest, were at an average price of $1.47 per thousand cubic feet (mcf).

The paradoxical result of Federal price controls on interstate gas is that Texasgulf paid for gas that it used in 1977 at the higher intrastate rates of more than $2 per mcf while the average price the company received for gas it produced was $1.03 per mcf in the United States and $1.20 per mcf in Canada. Texasgulf believes that controls on interstate gas prices should be removed promptly.

Worldwide drilling activity and acreage held at the end of the year is summarized below:

	Wells drilled		Acreage held	
	Wildcat	Development	Gross	Net
U.S. except Alaska	22	5	391,546	93,541
Canada	6	4	483,642	198,610
Alaska	2	0	25,333	9,237
Overseas	1	0	2,777,829	414,663
Total	31	9	3,678,350	716,051

Ten of the wildcats and 7 of the 9 development wells encountered either oil or gas in commercial quantities. Operations were either continuing or temporarily suspended on 4 other wells. In addition to the 40 wells in the above table, Texasgulf had an interest in 11 wells drilled by others, without cost to Texasgulf, under farmout or lease agreements.

1977 was an active year for oil and gas exploration and development in the Gulf of Mexico. Several announced discoveries were confirmed, and delineation drilling was conducted to determine the size

Operating Statistics (All dollar amounts in millions)	1977	1976	% Change
Sales	$22.5	$13.8	+63.0
Division income	$ 2.2	$ (6.7)	—
Capital expenditures	$12.3	$11.4	+ 7.9
Assets	$47.4	$30.7	+54.4
Production			
Oil and condensate (barrels)	232,000	229,600	+ 1.0
Gas (million cubic feet)	18,686	14,905	+25.4
Sales (All dollar amounts in millions)			
Oil and condensate	$ 2.0	$ 2.0	—
Gas	20.5	11.8	+73.7
	$22.5	$13.8	

The year 1977 was especially active for offshore oil and gas exploration and development in the Gulf of Mexico. Several announced discoveries were confirmed. Further drilling was conducted to determine the size and type of facilities required to begin production.

and type of production facilities required for other specific properties.

Successful exploratory wells included the discovery of a potential new gas field offshore Texas on Mustang Island Block 755, in which Tg has a 20% interest; a confirmation of an earlier gas discovery on West Cameron Block 405 (Tg interest, 25%) off Louisiana; the discovery and confirmation of oil and gas reservoirs on Main Pass Block 59 (Tg interest, 25%) off Louisiana; and a second successful field extension well on Ship Shoal Block 84 (Tg interest, 33-1/3%) off Louisiana.

A drilling and production platform was delivered in March for West Cameron Block 405, and an order for a platform for the Ship Shoal 84 reserve will be placed in April. Further drilling on Block 755 is scheduled for early 1978, and an economic study in progress will determine the feasibility of developing Main Pass Block 59.

Texasgulf and partners acquired 2 additional blocks in the Gulf of Mexico in the Federal lease sale on June 23. Texasgulf's interests included 22.5% in Block 129 East Cameron offshore Louisiana and 20% in Block 713 Matagorda Island offshore Texas.

Texasgulf now has an interest in 24 Federal leases in the Gulf of Mexico, which are either producing properties, under development or under consideration for exploration drilling.

Onshore exploration in the United States included further development drilling in West Whitebead Field, Oklahoma. Four wells were added as oil and gas producers in 1977. A gas-condensate extension to the North West Piedmont Field was completed in the first half of the year, and additional drilling on nearby leases is planned.

At the State Line field on the border of Colorado

Oil and Gas Division

On West Cameron Block 134, 20 miles offshore Louisiana, a crew shift arrives by service boat and operators are lifted to the drilling platform in a basket.

and Wyoming, 4 wells were completed as gas producers and will be tied into an existing pipeline in the near future.

Efforts to complete the 1-35 Cliff Creek well in Teton County, Wyoming, as a Frontier Formation gas producer have been suspended.

In the Gulf of Alaska the results of 2 wells in which Texasgulf had minor interests were negative, and the wells were plugged and abandoned.

A Federal lease sale was held for tracts in the Lower Cook Inlet of Alaska on October 27, 1977, and one tract was acquired by Texasgulf.

Texasgulf continues to support exploratory programs on the continental shelf in the Beaufort and Bering Seas in anticipation of lease sales scheduled later for these areas.

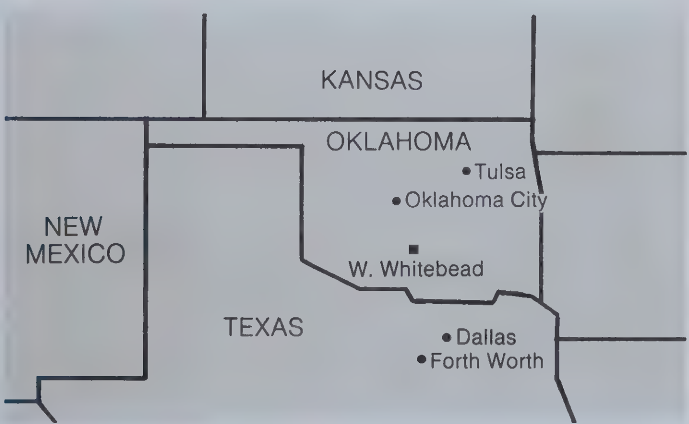
Ten wells drilled in Canada resulted in 4 gas wells. These were all completed in shallow Cretaceous sands near Texasgulf's existing producing properties in Alberta.

The Antler Creek well at Gregg Mountain, in which Tg has a one-third interest, tested varying amounts of gas in the Pekisco zone (Mississippian) but has not been established as a commercial producer. The evaluation program is continuing.

A one-third interest in the North Battleford heavy oil project was sold in 1977 to the government-owned Saskatchewan Oil and Gas Corporation (Saskoil) for $1,441,644 (Canadian), half of which was paid to Texasgulf. Texasgulf and Total Petroleum (North America) Ltd. now each have a one-third interest in the project.

North Battleford is an experimental project to test

A typical offshore exploration drilling platform is seen from a service helicopter approaching it for a landing.



steam injection as a method for economically recovering oil from extensive deposits of heavy oil in Saskatchewan. Results of tests in 1977 were encouraging. Beginning in 1978 the test project will be operated for the first time on a continuous year-round basis, providing a better indication as to commercial feasibility.

In Pakistan, Texasgulf began drilling its first wildcat on the Karak anticline, a large surface structure west of the Indus River about 130 miles west of Rawalpindi, in a known oil province. The well is drilling below 11,000 feet, to a planned depth of 12,500 feet. Texasgulf will earn a 35% interest in the Karak and Dakhni prospects by paying 50% of the costs of this well.

Texasgulf released its license covering 2 other concessions in the Indus Basin.

Minerals Exploration Division

The Minerals Exploration Division is responsible for exploration for minerals other than oil and gas in many parts of the world with special emphasis on North America.

Minerals exploration projects continued in several parts of the world during 1977, but with special emphasis on areas in Canada and the United States.

In Canada work continued in the Northwest Territories, British Columbia, Ontario, Quebec, New Brunswick and Nova Scotia.

In the Northwest Territories, the Izok Lake massive sulphide deposit was further defined and a transportation study made. No immediate plans have been made for development of the deposit in view of its remote location and present world market conditions for zinc and copper.

In British Columbia porphyry copper exploration was carried out, and work was done on lead-zinc properties in other areas of western Canada.

In Ontario the Chance prospect 1-1/2 miles northwest of Kidd Creek was drilled in 1977 without finding commercial quantities of mineralization. Exploration in the Kidd Creek area is continuing.

In Quebec Tg is investigating a group of 166 uranium claims in the Wakeham Basin. Drilling will be done in 1978 in a venture with CDC Oil and Gas Company, a subsidiary of Canada Development Corporation.

In Nova Scotia, drilling was conducted on the Jubilee lead-zinc prospect, a 50-50 joint venture with Amax Exploration Inc. Further drilling is planned for 1978.

In the United States most of the exploration activity was in Wyoming, Colorado, Texas, Alaska and the Appalachian states.

Exploration for uranium continues in Wyoming, Colorado, Utah and Texas. Coal prospects are also being studied.

Evaluation of the Cripple Creek, Colorado, gold prospect will continue in 1978.

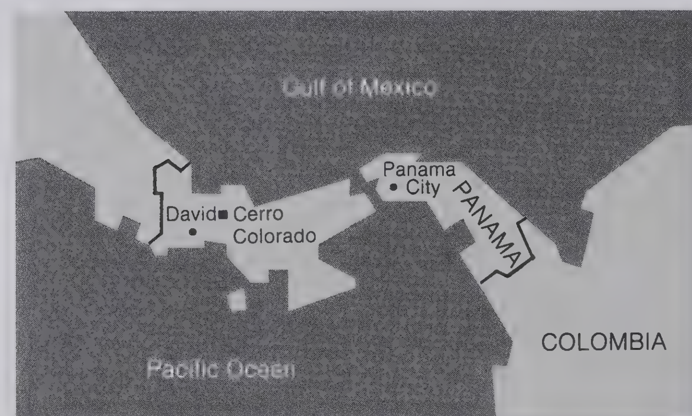
In west Texas exploration drilling for sulphur is continuing.

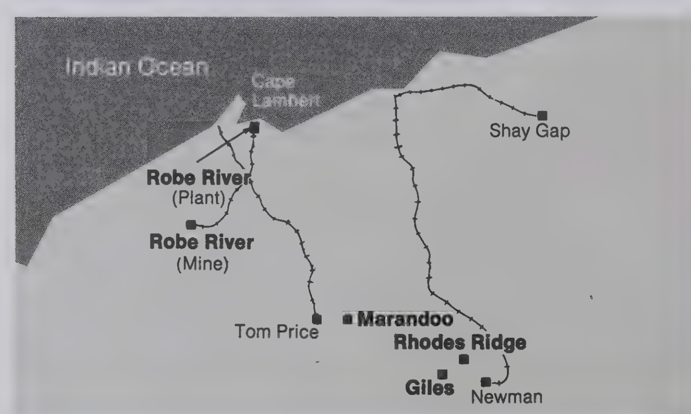
While the major emphasis of minerals exploration will continue to be in Canada and the United States, projects are also being carried out in other parts of the world, including Australia, Ireland, South Africa and Spain.

Exploration geologists study core samples taken in the course of diamond drilling of a typical base metals sulphide deposit in Canada.

International Division

The International Division includes responsibility for Texasgulf's iron ore projects in Western Australia, the Cerro Colorado copper project in western Panama and other projects overseas.





The detailed feasibility study of the large Cerro Colorado copper deposit in western Panama will be completed in May, 1978 under Texasgulf's agreement with the government of Panama. Texasgulf holds a 20% equity interest in the project and the remaining 80% is held by the government of Panama.

The study includes the evaluation of a mine and concentrator operating at a capacity of up to 27 million metric tons per year, a smelter producing 182,000 metric tons of blister copper per year, and a phosphoric acid plant producing 266,000 metric tons per year of P_2O_5 as phosphoric acid. Supporting facilities would include a road, port, and fresh water supplies. The concentrator location would be adjacent to the mine while the smelter would be located at the port approximately 63 kilometers by road from the minesite.

Results of the study indicate the mineralization, at a cutoff of 0.4% copper, consists of 1.4 billion metric tons averaging 0.78% copper. The deposit also contains 0.08 grams of gold and 5.1 grams of silver per ton, and 0.01% molybdenum.

In 1977, Texasgulf's 10.5% interest in the Robe River iron ore operation in Western Australia contributed $2,750,000 to Texasgulf's earnings compared with $1,950,000 in 1976. Shipment of iron ore pellets and iron ore sinter fines totalled 12,895,000 tons in 1977.

Robe River production, shipments and revenues were marginally higher in 1977 than the previous year despite poor demand worldwide for iron ore products. During the year renegotiation of sales agreements with the Japanese were completed and prices of both pellets and sinter fines were increased.

Construction continued on the expansion of the mine and processing complex to an annual capacity of 19.8 million tons.

Robe River exploration continued during 1977 in the West Angelas area. Ore reserves are estimated to be 950 million tons of plus 60% iron.

The Cerro Colorado copper deposit in western Panama is at an altitude of 5,500 feet. Texasgulf's feasibility study included construction of access roads and driving an adit 460 meters into the orebody.

Negotiations with Japanese steel mills for the sale of iron ore from the Marandoo and Giles Point deposits in Western Australia slowed during 1977 because of low steel production rates worldwide.

Field work was reduced in 1977, and emphasis was placed on updating the engineering studies and testwork for use when the project moves forward.

The Marandoo iron deposit is estimated to contain about 500 million metric tons of which 345 million tons were classified as proven and probable averaging about 62.2% iron, 0.06% phosphorus, 2.87% silica and 1.97% alumina. The possibilities for sharing infrastructure with existing Western Australia producers are being explored as well as the concept of using a slurry pipeline to transport the iron ore to the coast.

Long-term plans continue to include the development of the even higher grade iron deposit at Giles Point, southeast of Marandoo, as an additional supply for direct reduction plants. About 280 million metric tons at an estimated grade of 64.2% iron have now been defined.

Texasgulf has a 50% interest in the Marandoo and Giles Point deposits with Hancock and Wright of Australia.

Metallurgical testwork continued on chromium and platinum group metals from the Pandora deposit in South Africa. The market outlook for sales of chromite and ferrochromium, the major products from the orebody, has been adversely affected by excess productive capacity in the world steel industry.

Dividend payments on common and preferred stock in 1977 totalled $46 million. Dividends on the new issue of preferred stock were paid for the first time in 1977 and amounted to $9 million, or $3 per share.

Quarterly dividends of 30 cents a share of common stock were paid on March 15, June 15, September 15 and December 15.

The board of directors declared dividends on the preferred and common stock on February 2, 1978. The preferred dividend of 75 cents a share and the common dividend of 30 cents a share are payable on March 15, 1978 to stockholders of record on February 15, 1978. This will be the 226th consecutive quarterly dividend payment on the common stock.

New Directors Elected. George Bush of Houston, Texas, and Alexander M. Vagliano of New York City were elected directors at the annual meeting in April 1977 following the retirement of two long-service members of the board, Harold Decker of Houston and John M. Meyer, Jr. of New York.

Mr. Bush, a former U. S. Congressman who has also served the Government in Cabinet level positions, is chairman of the executive committee of the First International Bank of Houston and a director of several corporations. Mr. Vagliano is executive vice president of Morgan Guaranty Trust Company of New York.

The board expressed its appreciation of the many years of distinguished service by Mr. Decker and Mr. Meyer. Mr. Decker had been a director since February 1966 and Mr. Meyer since April 1967.

The board also expressed deep sympathy upon the death in September of another long-time director and honorary director, Edward K. Brass.

Organization Changes. Dr. Gino P. Giusti was appointed vice president of the newly structured Agricultural Chemicals Division, which will now include sulphur operations. David C. Edmiston, Jr. was appointed to the new position of vice president of Special Projects. F. Wayne White was elected vice president, employee relations and administration. Frank J. Claydon, Jr. was elected vice president, sulphur operations, succeeding Charles F. Drees who retired June 1, 1977 after 42 years of dedicated service.

James R. Paden was appointed assistant to the senior vice president, Industrial Chemicals Division. Thomas J. Wright was appointed general manager of phosphate operations at Lee Creek, North Carolina.

The continued loyalty and support of shareowners, employees, customers, suppliers and community neighbors is deeply appreciated.

Respectfully submitted,

Charles F. Fogarty
Chairman of the Board
and Chief Executive Officer

R. D. Mollison

Richard D. Mollison,
President

March 8, 1978

Financial Review

Summary

Total sales for 1977 failed to achieve the levels anticipated early in the year, but were still the second highest in company history, $482.6 million. Earnings were disappointing, declining to $46.3 million, the result of significantly lower unit sales volume in metals together with lower metals prices, lower phosphate volumes, and generally higher unit operating costs.

Worldwide zinc and copper consumption increased during the year, but prices remained depressed due to continued excess inventories.

The company's financial position was strengthened in November with the public offering of a $150 million issue of 8½% debentures due 2002. The proceeds of this issue were used to repay outstanding indebtedness under a bank credit and term loan agreement, thus extending outstanding debt maturities at lower effective borrowing costs. Debt ratios increased slightly due to continued high borrowing requirements for capital programs because of lower earnings. However, the ratios continue to be among the more conservative in the natural resources industry. Long-term debt was 32.8% of total capitalization at year-end.

Total assets of the corporation were $1.48 billion at year-end. Working capital increased to $249.8 million, resulting in a current ratio of 2.9 to 1. Product inventories increased 21.2% to $233.4 million, primarily attributable to increases in copper, zinc and sulphur inventories.

Discussion of Earnings

1977 Operations

Sales for 1977 were marginally improved, increasing to $482.6 million from $480.5 million in 1976. Worldwide excess inventory and productive capacity for some metals depressed prices. Sales volume of zinc metal was also down. Sales volumes of phosphate fertilizers were limited early in the year by production problems which have been resolved. Unit sales of phosphoric acid and related dry fertilizers decreased slightly due to weak export markets and fourth quarter demand, offsetting the effect of generally improved selling prices. The addition of a full year of soda ash sales together with increased prices and volumes for oil and gas and higher phosphate rock volume more than offset the decline in sales of metals and other phosphate products. Sulphur volume was higher but was partially offset by lower realized prices.

Royalties, Interest and Other Income declined $1.6 million because of non-recurring items included in other income

Quarterly Financial Highlights* (Unaudited)

	(amounts in thousands)			Per Share		
				Common		Preferred
	Sales	Operating Income**	Net Income	Net Income	Dividends	Dividends
1977						
1st Quarter	$119,722	$ 29,427	$15,049	$ .42	$ .30	$ .75
2nd Quarter	119,617	24,750	12,550	.33	.30	.75
3rd Quarter	119,332	19,378	10,576	.27	.30	.75
4th Quarter	123,976	17,756	8,110	.19	.30	.75
Total	$482,647	$ 91,311	$46,285	$1.21	$1.20	$3.00
1976						
1st Quarter	$110,549	$ 30,471	$15,874	$ .51	$ .30	—
2nd Quarter	134,573	38,014	20,541	.67	.30	—
3rd Quarter	128,503	32,539	16,474	.54	.30	—
4th Quarter	106,915	20,959	7,955	.26	.30	—
Total	$480,540	$121,983	$60,844	$1.98	$1.20	—

*As restated, see note 1.
**Excluding Interest Expense and Income Taxes.

in 1976 and slightly lower earnings of equity affiliates in 1977.

Operating, delivery and other related costs and expenses increased during 1977, but at a rate slower than that of the prior year. These costs increased 11.8% to $358.7 million from $320.9 million in 1976. The most significant increases resulted from the inclusion of soda ash operations for the entire year, higher unit costs for metals due largely to increased custom smelting and refining charges, higher energy costs for Frasch sulphur production, and increased phosphate mining costs due to temporary overburden removal problems.

Exploration charges of $17.1 million were $4.9 million or 22.2% lower than the $22.0 million charged in 1976. In 1977 the company adopted the successful efforts method of accounting for oil and gas activities in accordance with the Financial Accounting Standards Board Statement No. 19. See note 1 to the Consolidated Financial Statements.

Selling, general and administrative expense decreased $1.8 million in 1977 to $24.0 million including foreign exchange translations, which increased income by $4.1 million in 1977 compared with a $2.5 million reduction in 1976. Excluding foreign exchange translations, selling, general and administrative expenses increased $4.9 million for the year. Reflected in this increase are higher personnel and administrative costs and increased emphasis on sales and marketing.

Interest expense for the year was $27.0 million, about the same as in 1976. While overall interest rates were lower during the year, the average level of borrowing outstanding was higher.

Income taxes were reduced to $18.0 million, which was a 28.0% effective tax rate on pre-tax income. This reduction from the 35.9% rate in 1976 resulted from lower pre-tax income and the relationship of depletion and processing allowances to such income.

Net Income declined 23.9% in 1977 to $46.3 million or $1.21 per share on an average of 30,808,924 common shares outstanding.

1976 Operations

Sales for 1976 were $480.5 million compared to $444.6 million in 1975, an increase of 8.1%, reflecting increased volumes for substantially all of the company's products except sulphur.

Metal sales were higher primarily due to increased volumes of zinc and copper. Agricultural chemicals sales volume increased, while average prices received for dry phosphate products fell 33% or more from 1975 and phosphoric acid prices decreased approximately 8%.

Royalties, Interest and Other Income declined $6.9 million, due principally to a reduction of funds available for short term cash investments and reduced earnings of affiliates accounted for by the equity method.

Operating, delivery and other related costs and expenses for 1976 were $320.9 million, an increase of 30.4% over 1975's $246.1 million. Approximately 54% of the increase resulted from increased volume. The balance was attributed to increases in unit costs for labor and materials, due primarily to increased charges for smelting and refining of copper and higher prices for gas used at the company's Frasch sulphur mines.

Exploration charges as restated decreased $9.5 million in 1976. See note 1.

Selling, general and administrative charges increased $9.6 million in 1976. Of the increase, $5.0 million resulted from foreign currency translation losses of $2.5 million in 1976 compared with gains of $2.5 million in 1975. The balance of the increase was largely due to increased personnel costs and commitment fees on credit agreements.

Interest expense increased $13.0 million, due to increased charges from the $125 million debentures issued on December 23, 1975 and from increased long term borrowings during the year.

Income taxes were $26.0 million lower in 1976, largely due to lower income before taxes. The effective income tax rate of 35.9% in 1976 was lower than the 39.1% used in 1975, reflecting the decrease in income before taxes. It also reflects the increased processing allowance, due to the major capital improvements being made at the Kidd Creek Mine, available in calculating the Ontario mining tax.

Net income as restated for 1976 amounted to $60.8 million, a decline of 35.1% from $93.7 million in 1975. Per share earnings were $1.98 on an average of 30,735,287 common shares outstanding.

Financing

Texasgulf maintained a strong financial position in 1977 despite difficult market conditions resulting in a decline in earnings.

Total new capital resources required in 1977 amounted to $141.1 million compared with $155.3 million total debt plus equity added in the previous year. This lower requirement was the result of reduced capital expenditures due to the stretch out of construction schedules and significantly lower debt repayments, partially offset by lower internally generated funds.

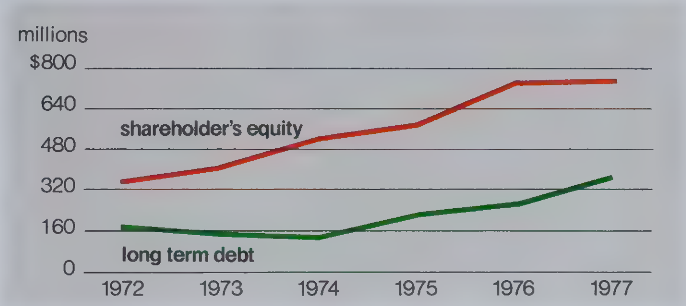
During the year, funding requirements were met largely from the $250 million bank credit and term loan agree-

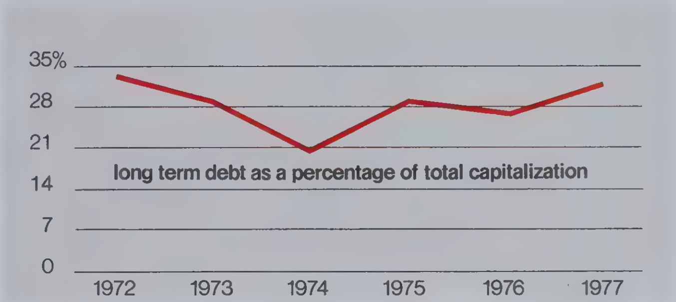
ment. At the beginning of the year, $40 million was outstanding, and borrowings increased to a peak of $155 million in October. The average interest rate charged on this loan during 1977 was 6.63%. Subsequent to the closing of the debenture issue described below, the $155 million outstanding balance was repaid with net debenture proceeds and other funds, and the bank agreement was cancelled. Total payments made on long term debt in 1977 were $169.8 million, including the above.

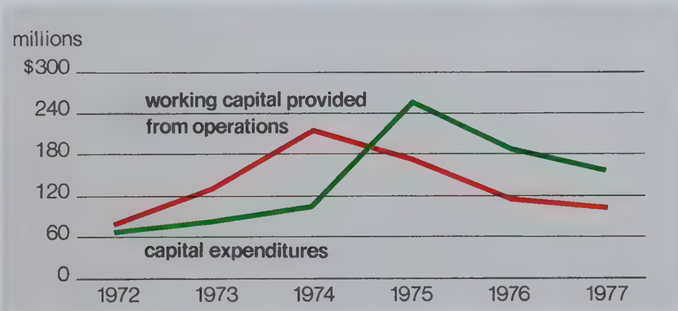
In November, Texasgulf sold a public debenture issue. This $150 million 8½% issue due 2002 was rated A/A+ by the major rating agencies, and the debentures have been listed on the New York Stock Exchange. Mandatory annual sinking fund payments sufficient to retire $7.5 million principal amount of debentures on or prior to November 1 in each of the years 1983 through 2001 will retire 95% of the issue prior to maturity.

By using the debenture proceeds of $148.7 million to repay outstanding indebtedness under the bank credit and term loan agreement, the average life of debt maturity schedules was increased from 3.9 to 15.5 years, and the overall effective cost of borrowing was reduced.

During 1977 the company also made temporary borrowings under available bank lines of credit with peak usage of $35.2 million at year-end. Interest was at an average rate of 6.85% and the interest rate in effect at December 31, 1977 was 7¾%. Bank lines of credit presently total $151 million.







Capital Expenditures

Additions to capital assets in 1977 were $145.8 million compared to $180.1 million in 1976. The majority of expenditures were for continuation and completion of projects started in earlier years. Metals Division programs for the Kidd Creek copper smelter and refinery and expansion of the concentrator required $67.1 million.

Worldwide exploration expenditures amounted to $18.5 million. Minerals exploration amounted to $10.8 million. The Oil and Gas Division spent $7.7 million for exploration, including $2.4 million for offshore property interests. In addition, $2.8 million was spent on development and $11.3 million on exploration that was expensed.

Normal expenditures for replacements and improvements in other operating divisions totaled $60.2 million, including Agricultural Chemicals $8.1 million, Industrial Chemicals $17.5 million, and Metals $28.6 million. Other major expenditures included additional investment in Cerro Colorado of $2.2 million.

Capital expenditure plans for 1978 have been reduced as a result of the previously announced stretch out of construction on the Kidd Creek copper smelter and refinery and development work in the No. 2 underground mine. Current plans anticipate total capital outlays of about $110 million.

Continuing work in 1978 on the copper smelter and refinery is currently expected to approximate $39 million. Other Metals Division projects are planned at $20 million, including underground mine development and mill expansion of $12 million.

Exploration expenditures are budgeted for $18 million, not including administrative expenses. Oil and Gas Division expenditures excluding development are $15 million. Additionally, $10 million has been budgeted for development. Other projects and normal operating requirements for replacement and improvement in the Agricultural Chemicals Division will amount to $15 million and the Industrial Chemicals Division will spend $5 million.

Dividends

Dividend payments in 1977 were nearly $46 million. Texasgulf's payments of consecutive quarterly dividends for 56 years has amounted to $711.4 million, equivalent to 51% of net earnings.

Consolidated Statements of Income

	Year ended December 31 1977	Year ended December 31 1976*
	(amounts in thousands)	
Sales	$482,647	$480,540
Royalties, Interest and Other Income	8,508	10,102
	491,155	490,642
Costs and Expenses		
Operating, delivery and other related costs and expenses	358,742	320,869
Exploration	17,121	22,016
Selling, general and administrative	23,981	25,774
Interest	27,026	26,989
Income taxes	18,000	34,150
	444,870	429,798
Net Income	$ 46,285	$ 60,844
Net Income Per Common Share**	$1.21	$1.98
Average Number of Common Shares Outstanding	30,808,924	30,735,287

Consolidated Statements of Retained Earnings

	1977	1976*
	(amounts in thousands)	
Retained Earnings at January 1, as previously reported	$639,016	$612,984
Adjustment for the cumulative effect on prior years of adopting FASB Statement No. 19	(45,222)	(43,152)
Retained Earnings at January 1, as adjusted	593,794	569,832
Net income	46,285	60,844
Cash Dividends—preferred ($3.00 per share in 1977)	(9,000)	—
—common ($1.20 per share each year)	(36,976)	(36,882)
Retained Earnings at December 31	$594,103	$593,794

*As restated, see note 1.
**Assumed conversion of the preferred stock would have an anti-dilutive effect.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	(amounts in thousands) Year ended December 31 1977	Year ended December 31 1976*
Funds were provided from		
Net Income	$ 46,285	$ 60,844
Non-cash charges (credits) to income		
Depreciation and amortization and provision for exploration expenditures of prior years	36,207	30,557
Deferred income taxes and taxes not currently payable	13,208	26,598
Equity in net income of affiliates	(3,550)	(3,650)
Other items—net	(3,310)	384
Working capital provided from operations	88,840	114,733
Long term debt borrowing	275,686	229,462
Net proceeds on sale of preferred stock	—	146,927
Short term debt borrowing	35,200	—
Disposition of property, plant and equipment	668	10,882
Decrease in investments in and advances to affiliates	1,542	470
Transfers of common stock under stock plans	1,663	2,235
Increases in accounts payable and accrued liabilities	12,913	8,123
Increase in other non-current liabilities	5,967	—
Total Funds Provided	422,479	512,832
Funds were required for		
Additions to property, plant and equipment	145,772	180,060
Repayment of long term debt	169,836	221,106
Dividends	45,976	36,882
Increase (decrease) in accounts receivable	4,890	(1,916)
Increase in inventories	44,837	55,805
Increase in notes receivable, advances and other assets	9,313	27,240
Decrease in income taxes payable and deferred income taxes applicable to current assets	7,406	728
Total Funds Required	428,030	519,905
Resulting in a decrease in cash and short term investments	(5,551)	(7,073)
Cash and short term investments		
Beginning of year	29,892	36,965
End of year	$ 24,341	$ 29,892

*As restated, see note 1.

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

ASSETS

	(amounts in thousands) December 31 1977	December 31 1976*
Current Assets		
Cash	$ 24,341	$ 29,892
Accounts receivable, less allowance of $1,284 in 1977 and $1,171 in 1976	83,867	78,977
Inventories		
Minerals and products	233,352	192,508
Materials and supplies	40,027	36,034
Total Current Assets	381,587	337,411
Investments, Advances and Other Assets		
Investments in and advances to affiliates	34,430	32,422
Notes receivable, advances and other assets	64,339	56,971
	98,769	89,393
Property, Plant and Equipment, at cost		
Lands, contract rights and development	275,980	257,506
Plants, buildings, machinery and equipment	933,398	826,108
	1,209,378	1,083,614
Less accumulated depreciation and amortization	271,484	241,587
	937,894	842,027
Unproven properties and exploration projects, less reserve for exploration costs of $27,387 in 1977 and $35,491 in 1976	59,629	46,599
	997,523	888,626
	$1,477,879	$1,315,430

*As restated, see note 1.

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	(amounts in thousands) December 31 1977	December 31 1976*
Current Liabilities		
Short-term loans payable	$ 35,200	$ —
Current maturities of long term debt	6,960	5,396
Accounts payable and accrued liabilities	73,471	60,558
Income taxes payable	5,533	14,839
Deferred income taxes applicable to current assets	10,600	8,700
Total Current Liabilities	131,764	89,493
Long Term Debt, less current maturities	366,592	266,176
Income Taxes and Other Non-current Liabilities	28,311	17,829
Deferred Income Taxes	199,069	191,761
Stockholders' Equity		
Preferred stock $1 par value—Authorized 5,000,000 shares, issued and outstanding 3,000,000 shares, $3.00 Convertible Cumulative Preferred Stock, Series A	146,927	146,927
Common stock, without par value—Authorized 45,000,000 shares; issued as follows:		

	1977	1976
Outstanding	30,841,025	30,779,611
In treasury	3,718,975	3,780,389
Issued	34,560,000	34,560,000

	December 31 1977	December 31 1976*
Common stock issued	26,175	26,175
Contributed capital	7,666	6,379
Retained earnings	594,103	593,794
	774,871	773,275
Less cost of common stock in treasury	22,728	23,104
Stockholders' Equity	752,143	750,171
	$1,477,879	$1,315,430

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies and Related Matters

A. Changes in Accounting Policies. Prior to 1977 all expenditures on major oil and gas exploration projects were capitalized pending determination of commercially recoverable reserves. As described in section F of this note, during 1977 the company adopted the successful efforts method of accounting for oil and gas activities in accordance with Financial Accounting Standards Board Statement No. 19 and accordingly, financial statements of prior periods have been restated to give effect to this change. All companies will be required to adopt the methods of accounting and reporting for oil and gas activities required by FASB Statement No. 19 for fiscal years beginning after December 15, 1978. It has generally been the policy of the company to elect early adoption of new accounting pronouncements and therefore the change to the required method of accounting in FASB Statement No. 19 was effected during 1977. The effect of this change on net income in 1977 was insignificant. Prior years' net income has been increased (decreased) as follows: 1976 ($2,070,000), (07) cents per share; 1975 ($9,512,000), (31) cents per share; 1974 ($3,646,000), (12) cents per share; 1973 $2,870,000, 10 cents per share; 1972 ($13,591,000), (44) cents per share; 1971 ($7,263,000), (24) cents per share; 1970 ($9,972,000), (33) cents per share; 1969 ($1,693,000), (05) cents per share; 1968 and years prior ($345,000). Lands, contract rights and development and unproven properties and exploration projects have been reduced $4,410,000 and $52,560,000 respectively, and deferred income taxes have been reduced $11,850,000.

In 1977 the company also elected early adoption of the recommendations contained in FASB Statement No. 13 pertaining to accounting for leases. The effect of this change on net income of the current year and prior years was not significant, consequently no adjustments have been made to prior years' net income as a result of this change.

B. Principles of Consolidation. The accompanying consolidated financial statements include the accounts of Texasgulf Inc. and all of its subsidiaries. All significant inter-company balances and transactions of the consolidated companies are eliminated. Investments in affiliates (20% to 50% owned) are carried on the equity basis.

C. Inventories. Inventories of minerals above ground and products are stated at the lower of average cost or market. Materials and supplies are stated at average cost.

D. Development Costs. Expenditures necessary to prepare an orebody for production are capitalized prior to initial production. Thereafter expenditures of a similar nature are charged to operations, except for major expenditures expected to benefit several years production which are capitalized.

E. Depreciation and Amortization. The company's policy is to depreciate and amortize producing property, plant and equipment over the estimated lives of such assets by the application of the unit-of-production method in the case of mines and oil and gas properties and facilities and the straight-line method in the case of manufacturing facilities. In arriving at rates under the unit-of-production method, commercially recoverable product reserves are estimated by the company's geologists and engineers. Such estimates are revised as data become available to warrant revision. Under the straight-line method, the annual rates applied to the cost of the assets give effect to wear and tear, deterioration from natural causes and normal obsolescence.

Depreciation and amortization of producing property, plant and equipment was $33,362,000 in 1977 compared with $28,311,000 in 1976.

F. Exploration. As stated in section A of this note the company adopted the method of accounting for oil and gas activities in accordance with FASB Statement No. 19. Under this method all exploration costs other than intangible drilling costs and costs related to obtaining property interests are expensed as incurred. Intangible drilling costs are deferred pending determination of establishment of proven reserves. Costs of obtaining property interests are capitalized subject to the establishment of reserves for impairment in value based primarily on the results of exploration.

All expenditures on major mineral exploration projects are capitalized pending determination of commercially recoverable reserves. The company accumulates costs initially in connection with broad areas of interest prior to property acquisition; thereafter, costs are allocated to properties acquired and ultimately to specific anomalies. Major projects determined to be commercially unsuccessful are charged to expense, and reserves are provided for all expenditures on minor projects. General administrative expense relating to overall exploration efforts is charged to operations as incurred.

G. Income Taxes. The company has deferred to future periods the income tax effect resulting from timing differences between financial statement pretax income and taxable income. The deferred tax on these differences pertains principally to depreciable plant and equipment, development costs incurred on several properties, taxes and royalties included in inventories, exploration costs and Canadian Federal Branch tax.

Investment tax credits utilized are deferred and amortized over the estimated lives of the related assets. (See note 2.)

H. Pension Plans. The company has pension plans covering substantially all employees, including employees in foreign countries. The policy is to fund pension costs accrued.

Pension expense for 1977 and 1976 was $9,169,000 and $8,788,000 respectively. The market value of plan assets exceeded the actuarially computed value of vested benefits at the most recent valuation date.

I. Exchange Gain or Loss. The aggregate exchange gain (loss) included in determining net income amounted to $4,141,000 in 1977 and ($2,539,000) in 1976.

2. Income Taxes

Income tax expense comprises:

	(amounts in thousands)		
	U.S. Federal	Foreign	Total
1977			
Current taxes	$ 3,200	$ 5,500	$ 8,700
Deferred taxes	(2,850)	12,150	9,300
	$ 350	$17,650	$18,000
1976			
Current taxes	$(1,100)	$10,300	$ 9,200
Deferred taxes	(3,350)	28,300	24,950
	$(4,450)	$38,600	$34,150

Deferred tax expense results from timing differences in the recognition of transactions for tax returns and financial statement purposes. The nature and the tax effect of these differences in 1977 and 1976 were as follows:

	(amounts in thousands)	
	1977	1976
Excess of tax over book depreciation:		
U.S.	$ 750	$ (750)
Foreign	10,200	23,150
Deferred mine development costs:		
Foreign	900	(3,900)
Exploration costs less than tax deductions	550	1,500
Deferred Canadian Federal Branch tax	800	4,650
Investment credit benefit deferred	(1,500)	2,200
Taxes and royalties	—	(500)
Foreign currency translation	350	(200)
Other	(2,750)	(1,200)
	$ 9,300	$24,950

Total tax expense is less than the amount which would be provided by applying the U.S. Federal income tax of 48% for the following reasons:

	1977	1976
U.S. Federal income tax statutory rate.	48.0%	48.0%
Foreign income subject to foreign income taxes	(11.1)	(9.0)
U.S. depletion	(7.4)	—
Other	(1.5)	(3.1)
	28.0%	35.9%

No U.S. Federal income tax was provided on Canadian source income since the foreign tax credits arising from the Canadian taxes paid on this income are sufficient to satisfy the U.S. Federal income tax liabilities applicable to such income after giving consideration to U.S. depletion deductions and U.S. Federal income tax deductions available to Western Hemisphere Trade Corporations (WHTC).

At December 31, 1977 Texasgulf had investment tax credit carryforwards of approximately $25,650,000 available as credits against future U.S. Federal income taxes. Of this amount $1,200,000 expires in 1981, $8,800,000 expires in 1982, $13,500,000 expires in 1983 and $1,650,000 expires in 1984. The extent of utilization of these investment tax credit carryforwards is uncertain at this time.

On audit of the company's U.S. Federal income tax returns for the years 1966 through 1971 the Internal Revenue Service has raised several issues, the most significant of which pertains to the company's treatment of taxes paid to Ontario pursuant to The Ontario Mining Tax Act on income from the Kidd Creek Mine. The company has claimed this tax as a credit against U.S. income taxes. The Service has asserted the tax should be a deduction in arriving at U.S. taxable income for the years 1967 through 1971. The ultimate determination of this issue will also apply to the period 1972 through April 9, 1974. In 1975 The Ontario Mining Tax Act was amended effective April 10, 1974. The Internal Revenue Service in January 1978 issued a published ruling to the effect that this tax for periods prior to April 10, 1974 does not constitute a creditable foreign income tax. The company has been advised by Messrs. Miller & Chevalier, its counsel on this issue, that with respect to the period prior to April 10, 1974 the company has a meritorious position and that there is a substantial chance it will prevail in litigation in its contention that the Ontario Mining tax is eligible for foreign tax credit. For the period subsequent to April 9, 1974 Messrs. Miller & Chevalier have advised they expect the Company to ultimately prevail on this issue should it be raised by the Service.

The company intends to contest all of the issues referred to above and expects to prevail. Should the Service prevail with respect to the issues raised the ultimate liability will not have a material adverse effect on the financial position of the company.

3. Long Term Debt

	(amounts in thousands) Dec. 31, 1977	Dec. 31, 1976
9½% Canadian dollar notes, due 1982	$ 22,855	$ 24,790
Credit and term loan, due 1983	—	40,000
10% Canadian dollar debentures, due 1986	22,855	24,790
5.75% notes, due 1986	11,750	13,000
4.70% notes, due 1989	33,000	35,750
9⅜% debentures, due 2000	125,000	125,000
8½% debentures, due 2002	150,000	—
Other	8,092	8,242
	373,552	271,572
Less current maturities	6,960	5,396
	$366,592	$266,176

The 9½% Canadian dollar notes due 1982 are not subject to a sinking fund. The 10% Canadian dollar debentures, due 1986 are subject to annual sinking fund payments of $1,250,000 (Canadian) for the years 1978 through 1985 and a final payment of $15,000,000 (Canadian) in 1986. The notes and the debentures were issued by Texasgulf Canada Ltd., a wholly owned subsidiary of Texasgulf and are guaranteed by Texasgulf.

The 5.75% notes of a subsidiary due 1986 require semi-annual payments as follows: $625,000 in 1978 through 1985 and $875,000 in 1986. The 4.70% notes due 1989 require annual payments totaling $2,750,000.

The 9⅜% debentures due 2000 require annual sinking fund payments sufficient to redeem $8,250,000 principal amount of debentures for the years 1986 to 1999 and a final payment of $9,500,000 in the year 2000.

On November 2, 1977, $150 million 8½% debentures due 2002 were issued. Refunding of these debentures is not permitted prior to 1987 at an effective interest cost of less than 8.5% per annum. Otherwise, the debentures are redeemable at the option of the company, initially at 108.50% through October 31, 1978 and at decreasing prices thereafter to and including October 31, 1997 and thereafter at 100%, plus accrued interest. Mandatory annual sinking fund payments sufficient to retire $7.5 million principal amount of debentures on or prior to November 1 in each of the years 1983 through 2001 are required in order to retire 95% of the issue prior to maturity.

Long term debt at December 31, 1977 matures through 1982 as follows:

	(amounts in thousands)
1978	$ 6,960
1979	$ 6,281
1980	$ 6,517
1981	$ 8,081
1982	$28,231

At the end of 1977 the company had a contingent obligation as guarantor of 35% of $42,500,000 borrowed from banks by an affiliate and used in construction of the Robe River iron ore project. The company is also the guarantor of 35% of the affiliate's borrowing under a credit agreement with the Export-Import Bank of the United States up to $5,500,000. Under this agreement $4,800,000 was outstanding as of December 31, 1977.

The company's loan agreements limit funded indebtedness. At December 31, 1977 the company was permitted additional funded indebtedness of approximately $450,000,000.

There are no agreements with any bank, either written or implied, that the company is to maintain any demand deposit in a determined amount which would constitute support for existing borrowing arrangements, including both outstanding borrowings and the assurance of future credit availability. However, it is the company's internal financial policy to maintain demand deposit balances sufficient in the company's judgment to insure the continued availability of credit as the company may require.

4. Stock Options

Under a stock option plan approved by the stockholders in April 1972 options may be granted to officers and key employees of the company to purchase up to 750,000 common shares. In addition to granting "qualified stock options" which expire five years after date of grant, the company may also grant "non-qualified stock options" whose term shall not exceed ten years. Options granted in 1973 under the Plan were "qualified stock options" and were amended to become fully exercisable after two years from date of grant. Some of the options granted in 1974 and all of the options granted in 1975 were granted as "qualified stock options."

Under the options granted during 1974 optionees who are not officers or directors may elect at any time during the exercisable period to receive from the company the excess of the then fair market value of the shares exercisable over the option price in either cash or capital stock of the company or a combination of both at the election of the optionee. Under the options granted during 1975, the right to make such election was restricted to certain qualifying employees.

Options granted in July 1976 are nonqualified options which expire ten years from date of grant. All options granted in July 1976 contain the right of election to receive cash or capital stock as referred to above.

Outstanding unexercised options held by certain officers on July 8, 1976 were amended on that date, subject to the consent of the individual officer, to add the right to cancel any or all of such options, when exercisable, in return for the excess of fair market value over the exercise price. Outstanding unexercised options held by

certain other officers were similarly amended on February 3, 1977 and July 6, 1977.

All options become exercisable as to 40% of the total granted one year from the date of grant, as to 70% two years from the date of grant and as to 100% three years from the date of grant.

During the Year Options:	1977 Shares	1977 Option Price Per Share	1976 Shares	1976 Option Price Per Share
Were granted..	—	—	142,150	$34¼
Became exercisable..	136,245	$27⁹⁄₁₆-34¼	96,390	27⁹⁄₁₆-33⁵⁄₁₆
Were cancelled or expired...	9,000	27⁹⁄₁₆-34¼	6,670	27⁹⁄₁₆-34¼
Were exercised	18,850	22¾	68,110	20 -27⁹⁄₁₆

At December 31, 1977 there were 485,520 shares under option, 358,770 shares of which were exercisable at prices ranging from $22¾ per share to $34¼ per share.

Under the Career Incentive Stock Plan approved by stockholders, awards not to exceed 500,000 shares may be made out of treasury stock to officers and other key employees of the company and its subsidiaries. In 1977 awards of 60,000 shares were made, awards of 3,215 shares previously granted were cancelled and 40,000 shares were transferred to the employees under the plan. In 1976, awards of 61,700 shares were made, awards of 2,580 shares previously granted were cancelled, 500 shares of the 1976 awards were cancelled and 30,120 shares were transferred to the employees under the plan. Awards outstanding at December 31, 1977 and December 31, 1976 amounted to 238,190 shares and 221,405 shares respectively. An amount equal to the fair market value of the shares at the time of award is being charged to income over the period in which the awards will be earned. Accordingly, $1,512,000 was charged to income during 1977 ($1,273,000 in 1976). Shares are transferred 20% upon the second anniversary of the award and each anniversary thereafter.

The shares reserved for issuance under the above plans amounted to 1,026,140 at December 31, 1977 and 1,084,990 at December 31, 1976.

The Employee Shareownership Plan adopted in 1974 provides for initial and subsequent distributions of the company's common shares to all full time employees except senior officers based on years of service with the company.

Beginning in 1975, every employee on his first anniversary and on each fifth anniversary of employment will receive one share of stock for each year of service. In the initial distribution over 41,400 shares were awarded. It is expected that approximately 57,000 shares will be distributed to employees under the plan over the next five years. During 1977 and 1976, 10,895 and 8,484 shares respectively, were distributed.

In 1977 contributed capital increased by $1,287,000 ($1,848,000 in 1976) and treasury stock decreased by $376,000 ($652,000 in 1976) due to the transfer of common stock under the Stock Option, Career Incentive, and Employee Shareownership Plans.

5. Preferred Stock. Preferred shareholders are entitled to receive a dividend, if and when declared by the Board of Directors, prior to the payment of dividends on the common stock. Dividends on the preferred stock are cumulative from the date of issuance. The preferred shares are redeemable at $50 per share (which is the liquidation preference value) plus accrued dividends. If the shares are redeemed prior to December 15, 1986, a premium of $3.00 per share in 1978, $2.25 per share in 1979 and 1980, $1.50 per share in 1981 and 1982, $1.00 per share in 1983 and 1984 and $.50 per share in 1985 and 1986 is payable. At the conversion price of $31⅜ per share of common stock, each share of preferred stock is convertible into approximately 1.5936 shares of common stock. As of December 31, 1977, 4,780,800 shares of common stock were reserved for conversion of preferred stock. Holders of preferred stock are entitled to one vote for each share at all shareholder meetings.

6. Leases

Amounts included in property, plant and equipment at December 31, 1977 pertaining to leases were as follows:

	(amounts in thousands)
Rail equipment	$4,505
Sulphur tanker	3,892
Other	676
	$9,073

Contingent rental expense on the above leases amounted to $1,581,000 in 1977 and $1,808,000 in 1976. Total rent expense on operating leases was as follows:

(amounts in thousands)	1977	1976
Minimum rentals	$ 5,275	$5,072
Contingent rentals	5,650	2,074
Sublease rentals	(312)	(263)
	$10,613	$6,883

Contingent rentals pertain to vessel usage.

Future minimum lease payments at December 31, 1977 were as follows:

Capital Leases (amounts in thousands)

	Total	1978	1979	1980	1981	1982	Remainder
Minimum Payments	$ 9,958	$3,109	$2,659	$2,296	$653	$313	$928
Imputed Interest	(1,376)	(494)	(356)	(224)	(105)	(69)	(128)
Present Value	$ 8,582	$2,615	$2,303	$2,072	$548	$244	$800

Operating Leases (amounts in thousands)

	Total	1978	1979	1980	1981	1982	Remainder
Minimum Rentals	$26,082	$2,223	$2,091	$2,043	$1,971	$1,857	$15,897
Sublease Rentals	(1,532)	(171)	(182)	(182)	(182)	(165)	(650)
	$24,550	$2,052	$1,909	$1,861	$1,789	$1,692	$15,247

7. Industry Segment Information

Financial information by industry segment and geographic area for 1977 is summarized in the accompanying tables. Within these tables intersegmental sales have been accounted for at market prices. Income consists of revenues less operating expenses but before interest expense and income taxes.

Geographic Area (amounts in millions)

	United States	Canada	Other*	Total
Sales to customers in:				
United States	$205.2	$112.5	—	$317.7
Canada	3.1	57.5	—	60.6
Other	38.5	65.8	—	104.3
Total	$246.8	$235.8	—	$482.6
Income	$ 24.2	$ 64.4	$2.7	$ 91.3
Identifiable assets	$719.8	$576.1	$58.9	$1,354.8
Corporate assets				123.1
Total assets				$1,477.9

*Includes primarily equity income from investments in affiliates.

Industry Segment (amounts in millions)

	Agricultural Chemicals	Industrial Chemicals	Metals	Oil and Gas	Other*	Total
Sales	$147.2	$142.6	$199.0	$22.5	($28.7)	$ 482.6
Income	$ 17.3	$ 25.5	$ 56.7	$ 2.2	($10.4)	$ 91.3
Identifiable assets	$315.8	$407.4	$570.6	$47.4	$ 13.6	$1,354.8
Corporate assets						123.1
Total assets						$1,477.9
Capital expenditures	$ 8.1	$ 17.5	$106.5	$12.3	$ 1.4	$ 145.8
Depreciation and amortization	$ 12.2	$ 5.1	$ 11.4	$ 3.6	$ 1.1	$ 33.4

*Includes the elimination of intersegmental sales, primarily sales of sulphur to the Agricultural Chemicals Division.

8. Oil and Gas Activities

Information as of December 31, 1977 regarding oil and gas reserves and costs and expenditures on oil and gas operations are as follows:

	Total		United States		Canada	
Proved developed and undeveloped reserves:	Oil	Gas	Oil	Gas	Oil	Gas
Beginning of the year	22,020	410,735	626	49,919	21,394	360,816
Revisions of previous estimates	(186)	(3,707)	(236)	(3,091)	50	(616)
Extensions, discoveries, and other additions	126	10,998	126	9,868	—	1,130
Production	(232)	(21,770)	(88)	(12,114)	(144)	(9,656)
End of the year	21,728	396,256	428	44,582	21,300	351,674
Proved developed reserves:						
Beginning of year	22,020	320,135	626	49,919	21,394	270,216
End of year	21,698	299,481	398	38,407	21,300	261,074

Reserve amounts are stated in thousands of barrels for oil and millions of cubic feet for gas. The Canadian gas reserves shown above include hydrogen sulphide from which the Canadian sulphur reserves of the company are to be recovered.

(amounts in thousands)

	Total		United States		Canada		Other	
Expenditures:	1977	1976	1977	1976	1977	1976	1977	1976
Property Acquisition	$ 3,024	$ 7,141	$ 3,010	$7,124	$ 14	$ 17	—	—
Exploration	$16,712	$10,411	$10,742	$5,610	$1,292	$1,297	$4,678	$3,504
Development	$ 2,772	$ 3,009	$ 2,354	$1,468	$ 418	$1,541	—	—
Production (lifting costs)	$ 2,930	$ 2,809	$ 1,079	$ 877	$1,851	$1,932	—	—

9. Construction and Expansion Programs

The company is engaged in two major construction and plant expansion programs which in the aggregate are expected to cost approximately $406,000,000 of which approximately $174,000,000 had been spent through December 31, 1977.

10. Unaudited Current Replacement Cost Information

The cumulative impact of inflation over a number of years has resulted in higher costs for replacement of existing plant and equipment; however, these increased costs have partially been offset by technological and design improvements which result in increasing the productivity of the newer asset additions. Current replacement cost information is contained in the company's 1977 Form 10-K report filed with the SEC.

11. Unaudited Quarterly Financial Information is tabulated in the Financial Review on page 29.

Accountants' Report

Peat, Marwick, Mitchell & Co.
CERTIFIED PUBLIC ACCOUNTANTS
345 PARK AVENUE
NEW YORK, NEW YORK 10022

To The Stockholders of Texasgulf Inc.

We have examined the consolidated balance sheets of Texasgulf Inc. and subsidiaries as of December 31, 1977 and 1976 and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Texasgulf Inc. and subsidiaries at December 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for oil and gas activities as described in note 1 to the consolidated financial statements.

Peat, Marwick, Mitchell & Co.

February 17, 1978

High-Low Market Prices Texasgulf Stock

	1977		1976	
Quarter	High	Low	High	Low
Common Stock				
First	$31⅞	$28⅝	$35⅜	$28
Second	29⅞	24½	36⅝	33⅛
Third	25⅜	19¾	37⅝	33⅜
Fourth	21⅛	17⅛	34¾	27½
Preferred Stock				
First	55¼	51½	—	—
Second	52½	45⅜	—	—
Third	48½	40⅞	—	—
Fourth	41½	38⅜	51¼	49¾

The table above sets forth the range of the market prices per share of Texasgulf stock as reported on the New York Stock Exchange through January 23, 1976, and thereafter as reported on the Composite Tape in the United States, except for preferred stock trading over the counter during parts of December, 1976 and January, 1977. The company's shares are listed on the New York Stock Exchange under the symbol Tg and on the Montreal and Toronto exchanges under the symbol TXG.

Ten Year Financial Summary

Income (in millions of dollars)

Sales
Royalties, interest and other income
Operating, delivery and other related costs and expenses, including exploration
Selling, general and administrative expenses
Interest expense
Income taxes
Income before extraordinary charge
Extraordinary charge net of applicable income taxes
Net income

Financial Position (in millions of dollars)

Current assets
Current liabilities
Working capital
Mineral and product inventories
Property, plant and equipment—net
Total Assets
Long term debt, less current maturities
Stockholders' Equity

Other Data

Per Share of Common Stock—
Income before extraordinary charge
Extraordinary charge, net of tax
Net income
Dividends
Book value at December 31
Market price range
Number of shareowners of record Dec. 31
Average number of common shares outstanding (in thousands)

The above amounts have been restated, where appropriate, to r
flect the effects of adoption of FASB Statement No. 19. See note

1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
$482.6	$480.5	$444.6	$568.5	$363.8	$270.5	$217.7	$219.5	$239.3	$266.0
8.5	10.1	17.0	15.3	5.3	2.9	3.2	10.9	10.8	7.9
375.8	342.8	277.7	286.9	217.8	208.8	166.9	153.1	151.2	155.9
24.0	25.8	16.1	18.7	15.0	14.0	13.6	11.7	11.8	10.4
27.0	27.0	14.0	14.4	12.6	12.0	8.8	7.5	6.9	6.6
18.0	34.2	60.1	120.1	46.8	22.0	14.0	22.3	20.4	29.5
46.3	60.8	93.7	143.7	76.9	16.6	17.6	35.8	59.8	71.5
—	—	—	—	—	—	(4.7)	—	—	—
46.3	60.8	93.7	143.7	76.9	16.6	12.9	35.8	59.8	71.5
381.6	337.4	290.6	327.4	182.1	156.0	144.7	182.3	226.3	199.6
131.8	89.5	110.2	143.3	76.1	70.5	65.8	102.8	61.6	57.1
249.8	247.9	180.4	184.1	106.0	85.5	78.9	79.5	164.7	142.5
233.4	192.5	139.5	74.1	63.6	70.5	67.8	57.9	49.2	37.6
997.5	888.6	750.3	545.7	498.4	457.2	441.0	405.3	306.1	299.6
,477.9	1,315.4	1,100.7	939.5	743.9	676.4	648.6	633.0	572.2	528.4
366.6	266.2	227.9	134.7	157.2	173.4	169.1	119.9	117.3	125.5
752.1	750.2	576.8	517.6	401.5	343.5	344.9	350.2	332.6	289.4
1.21	1.98	3.06	4.71	2.53	.55	.58	1.18	1.97	2.36
—	—	—	—	—	—	(.15)	—	—	—
1.21	1.98	3.06	4.71	2.53	.55	.43	1.18	1.97	2.36
1.20	1.20	1.20	.98	.64	.60	.60	.60	.55	.33⅓
19.52	19.50	18.80	16.94	13.19	11.30	11.35	11.53	10.95	9.53
⅞-17⅛	37⅝-27½	36⅜-23⅞	36⅝-20⅛	33⅛-17⅛	20¾-14¾	24⅜-11¼	23¼-13	39⅞-19⅛	49⅞-29
59,901	62,289	64,534	66,881	64,841	80,247	82,511	79,728	72,149	62,001
30,809	30,735	30,616	30,483	30,417	30,396	30,386	30,386	30,384	30,324

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Frank J. Claydon, Jr. James W. Estep Gino P. Giusti

Leo J. Miller Frank R. Moulton, Jr. David C. Edmiston, Jr.

Walter F. Meyer Gordon N. McKee, Jr.

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Golden, Colorado

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and General Manager
Oil and Gas Division
Houston, Texas

James R. West
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Research, Engineering
and Construction

F. Wayne White
Vice President
Employee Relations
and Administration

Administrative	Charles J. Gillem	Corporate Insurance and Office Manager
	J. Morgan Gregory	Aviation Manager, White Plains, New York
Data Processing	**Raleigh, North Carolina**	
	John G. Stengel	Manager
	William F. Hodge, II	Computer Operations Supervisor
	Francis J. Moore	Systems and Programming Manager
	David L. Rutledge	Systems and Programming Supervisor
	P. Eugene Truelove	Technical Services Supervisor
Employee Relations	Thomas G. Downing	Assistant Manager
	William O. Britt	Compensation Manager
	George H. Griswold, Jr.	Employee Benefits Manager
Finance	John J. Burke	Assistant Credit Manager
	James A. Campbell	Assistant Controller, Taxes
	James P. Finnigan	Budget Manager
	Robert P. Hedley	Assistant Treasurer
	John E. Johnson	Assistant Treasurer
	Leroy T. Kling, Jr.	Assistant Controller, General Accounting
	Daniel H. Payne	Assistant Manager, Taxes
	William F. Seamon	Credit Manager
	John T. Thornton	Assistant Controller, Accounting Policy
Internal Audits	Allan W. Denninger	Manager
	Michael Kudlick	Assistant Manager
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	Charles W. Wilder	Assistant General Counsel and Assistant Secretary
	Meredith P. Crawford, Jr.	Senior Counsel and Assistant Secretary
	Clyde D. Ford	Senior Counsel, Houston
	George W. Hugo	Senior Counsel, Houston
	Lucius W. Pullen	Senior Counsel, Raleigh
	Earl C. Tingey	Senior Counsel
	Reginald A. Willoughby	Senior Counsel, Toronto, Ontario

Unless otherwise indicated location is Stamford, Connecticut.

Marketing

Advertising

Advertising	Charles S. Bryk	Manager
	William J. Cotter	Assistant Manager
Marketing Research	Paul A. Rittenhouse	Manager
	James A. Orser	Assistant Manager
Transportation and Distribution	**Houston, Texas**	
	Ted G. White	General Manager
	Wilson R. Atwood	Administrative and Planning Manager

Public Relations

Public Relations	William D. Askin	Manager

Research, Engineering and Construction

Research, Engineering and Construction	Harry G. Bocckino	Research and Development Manager, Golden
	Robert J. Boyle	Engineering and Construction Manager
	Philip D. Bush	Engineering and Construction Project Manager, Cerro Colorado Copper
	Jack H. McLellan	Special Projects Manager
	Alan G. Perry	Engineering and Construction Project Manager, Kidd Creek Copper Smelter and Refinery, Toronto

Operations

Agricultural Chemicals Division

Phosphate	**Raleigh, North Carolina**	
	John H. Wiley	Marketing Manager
	Scott F. Stidham	Assistant to the Vice President & Raleigh Office Manager
	Jerome F. Brim	Sales Manager, Feed Products, Weeping Water, Nebraska
	Robert B. Gibbs	Domestic Sales Manager
	John T. Gough	Billing Supervisor
	Anderson O. Harwell	Customer Services Manager
	Thomas M. McNally, Jr.	Accounting Manager
	Jack L. Milani, Jr.	Market Planning Manager
	Thomas L. Perkins	International Sales Manager
	Roy F. Underwood	Sales Systems Manager
	Maurice S. Weber	Transportation Manager
	Aurora, North Carolina	
	Thomas J. Wright	General Manager
	Cameron W. Albin	Acid Plants Superintendent
	Donald L. Bennett	Distribution Supervisor
	Walter E. Bondurant	Super Acid and Tank Farm Superintendent
	June W. Crawford	Technical Assistant to the General Manager
	Clyde W. Davis, Jr.	General Superintendent, Maintenance
	Robert J. Forest	Dicalcium Phosphate Operations Manager, Weeping Water
	Harvey A. Franz, Jr.	Chief Accountant
	Mitchell T. Harris	Maintenance Superintendent, Mine
	John D. Heard	Administrative Manager
	John M. Hird	General Superintendent, Mining
	Roy A. Hutchins	Technical Services Superintendent
	David A. Jacoby	Dredging and Reclamation Superintendent
	Delbert R. Jones, Jr.	Purchasing Agent
	Steven C. Mollison	Mine Superintendent
	Carroll J. Moore	Information Services Supervisor
	Melvin L. Preslar	Employee Relations Superintendent
	John R. Pyburn,	Employee and Public Relations Manager
	James N. Richardson	Mill Superintendent
	Frank H. Robinson	Chemical Plants Manager
	Calvin J. Staffa	Chief Engineer
	Guy W. Whitaker, Jr.	Fertilizer Plants Superintendent
	Brooks M. Whitehurst	Engineering Services Manager
Sulphur	**Houston, Texas**	
	Walter B. Gillette	Assistant Sales Manager, New York
	Earl W. Hanna	Assistant to the Vice President, Sulphur Operations
	Dennis B. Kanten	Assistant Sales Manager, Calgary, Alberta
	William F. Mason	Sales Manager
	Robert L. Vordick	Distribution Manager

Newgulf, Texas — Frasch Sulphur

Byron N. Soderman	Manager
Douglas C. Anders	Accounting Manager
Kenneth D. Bishop	Maintenance Manager
Murray O. Clapp	Traffic Manager
Ernest M. Dunn	Mine Manager, Moss Bluff, Texas
Kenneth O. Gilbert	Purchasing & Warehousing Manager
Wayne Herrington	Engineering Manager
Edmond Herschap, Jr.	Employee Relations Manager
Leonard M. Mason	Quality Control Manager
Alec C. Mayfield	Power Plant Manager
Herbert H. O'Quinn	Terminal Manager, Beaumont, Texas
George O. Richardson	Mine Manager, Comanche Creek, Texas
J. Franklin Sherrill	Mine Manager, Bully Camp, Louisiana
Noe Sonnier, Jr.	Field Manager
Raymond J. Staffa	Environmental Affairs Manager
Clinton P. White	Public Relations Manager

Calgary, Alberta — Recovered Sulphur

Frederic J. Ronicker	Manager
Edward W. Plum	Assistant Manager
Donald H. Davies	Plant Superintendent, Okotoks, Alberta
T. Stafford Mosher	Employee Relations and Office Manager
John A. Regehr	Traffic Coordinator
James J. Rennie	Traffic Superintendent, Whitecourt, Alberta
Lucien E. Tremblay	Chief Accountant
Douglas H. Whittaker	Vat Superintendent, Whitecourt

Forest Products Division

Johnsonburg, Pennsylvania

Arthur L. Bennett	Manager

Industrial Chemicals Division

Englewood, Colorado

James R. Paden	Assistant to the Senior Vice President
Gary C. Pickard	Accounting Supervisor

Potash

Moab, Utah

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Rudolph S. Higgins	Manager
Paul Arthur	Chief Accountant
Albert K. Gentry	General Superintendent
Clark H. Huff	Development and Planning Supervisor
Robert E. MacAdams	Employee Relations Supervisor
Charles L. Squires	Safety and Environmental Control Supervisor

Soda Ash

Granger, Wyoming

Robert E. Clagett	General Manager, Englewood
Paul V. Bethurum	Manager
Richard G. Bryan	Sales Manager, Englewood
Edward H. Conroy	Technical Services Manager
Roy C. Duffey	Purchasing Agent
Robert J. Garland	Maintenance Superintendent, Surface
Glen E. Hunter	Maintenance Superintendent, Mine
James A. King	General Superintendent, Surface
John Manyak	Chief Accountant
Donald R. Mobley	Mill Superintendent
Herbert S. Price	Mine Superintendent
Richard C. Reynolds, Jr.	Employee Relations Superintendent
David D. Smith	Production Superintendent, Mine
Jere R. Snell	Assistant Sales Manager, Englewood

International Division

Kurt O. Linn	Geology Manager
Jackson G. Pinkerton	Administrative Manager
James Saville	Metallurgy Manager
Gordon L. Toll	Mining Manager

Metals Division	**Toronto, Ontario**	
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	Bruce W. Gilbert	Sales Manager
	Albert W. Scragg	Accounting Manager
	H. Devon Smith	Public Relations Manager and Toronto Office Manager
	St. Louis, Missouri	
	Howard L. Young	Zinc Metal Sales
	Timmins, Ontario	
	Barton A. Thomson	General Manager
	Michael P. Amsden	Assistant General Manager
	David G. Baskin	Traffic Manager
	J. Eric Belford	Mining Manager
	Donald F. Grenville	Employee Relations and Administrative Manager
	Steven W. Alexanders	Employee Relations Superintendent
	Clarence V. Amyotte	Mine Superintendent, Surface
	Colin Chapman	Concentrator Superintendent
	George C. Coupland	Special Projects Superintendent
	George M. Freeman	Zinc Plant Superintendent
	G. Merle T. Marshall	Engineering Superintendent
	Angelo Matulich	Chief Geologist
	Ronald M. McHale	Data Processing Superintendent
	David L. McKay	Mine Superintendent, Underground No. 2 Mine
	William H. Niemi	Traffic Superintendent
	Leonard D. Sanderson	Maintenance Superintendent
	Ronald M. Sweetin	Copper Refinery Superintendent
	Donald G. Treilhard	Copper Smelter Superintendent
	Arthur C. Warren	Chief Accountant
	J. Keith Youngblut	Mine Superintendent, Underground No. 1 Mine
Minerals Exploration Division	**Golden, Colorado**	
	George W. Mannard	Regional Manager, Toronto
	Edward J. Poole	Regional Manager, Johannesburg, South Africa
	Morland E. Smith	Regional Manager, Perth, Western Australia
	James H. Ogg	Administrative Manager
	George Podolsky	Chief Geophysicist
Oil and Gas Division	**Houston, Texas**	
	Weyman W. Crawford	Assistant General Manager, North America
	Clyde S. Deal	Assistant General Manager, Foreign
	Robert F. Dinnean	Chief Geologist
	David L. Henning	Chief Geophysicist
	Robin L. Lyon	Regional Manager, Houston
	Maurice Mazurkewich	Regional Manager, Calgary
	Charles H. Moritz	Division Accountant
	Richard E. Oppel	Regional Manager, Alaska
Subsidiaries		
Pakistani Texasgulf Inc.	Paul E. Cassity	Vice President, Karachi, Pakistan
Texasgulf Australia Ltd.	Kenneth J. Kutz	President
	Charles E. Brechtel	Vice President, Perth
Texasgulf Canada Ltd.	Richard D. Mollison	President
	P. Ray Clarke	Executive Vice President, Timmins
Texasgulf Export Corporation	Michael C. Hughes	Vice President, London, England
Texasgulf Panama Inc.	Kenneth J. Kutz	President
	Enrique J. Ruiz-Williams	Vice President, Panama City, Panama
Affiliates		
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Cia. Exploradora del Istmo, S.A. (C.E.D.I.)	Robert M. Stoy	Tg Chief Technical Adviser to C.E.D.I., Texistepec, Mexico
Sulphur Export Corporation	John W. Hall, Jr.	Chairman and Joint Managing Director
	S. Keith Hardwick	Vice President

Texasgulf's board of directors at a meeting at corporate headquarters in Stamford, Connecticut (left to right): Claude O. Stephens, Alexander M. Vagliano, Louis R. Desmarais, John P. Gallagher, Richard M. Thomson, Dr. Charles F. Fogarty, Dr. Guy T. McBride, Jr., H. Anthony Hampson, Allan Shivers, George Bush, Donald B. Smiley and Richard D. Mollison.

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First International Bank of Houston and
Director of Several Companies
Houston, Texas

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of the Council
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Montreal, Quebec

Charles F. Fogarty
Chairman of the Board and
Chief Executive Officer
Stamford, Connecticut

John P. Gallagher
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Chief Executive Officer
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Calgary, Alberta

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Toronto, Ontario

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Austin, Texas

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Chief Executive Officer
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New York, New York

Claude O. Stephens
Consultant
New York, New York

Richard M. Thomson
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Toronto, Ontario

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Executive Vice President
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Stamford, Connecticut 06904

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Morgan Guaranty Trust Company
New York, New York

Registrar — Canada
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Calgary, Montreal, Toronto and Winnipeg

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Canada Permanent Trust Company
Calgary, Montreal, Toronto and Winnipeg

Texasgulf Inc.
High Ridge Park
Stamford, Conn. 06904

Printed in U.S